AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

FRIDAY, MAY 16, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:32 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senator Bennett.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST

J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES

MARK E. REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT

THOMAS C. DORR, UNDER SECRETARY FOR RURAL DEVELOPMENT

JOSEPH J. JEN, UNDER SECRETARY FOR RESEARCH, EDUCATION, AND ECONOMICS

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

I apologize to our witnesses for the fact that we are here on a Friday when many would rather be out on a golf course, but it is raining so you might as well be in here where it is dry.

But the Senate voted for something like 72 hours—or, no, it seemed like 72 hours—17 hours yesterday right straight through, so everything got canceled or postponed.

Senator Kohl, the ranking member of the subcommittee, had a commitment today that he was unable to break, and I discussed with him whether we should go ahead today or not. He urged me to go ahead because we need to be moving ahead with our appropriations process. And given his previous commitments, why, we excuse him. Other Senators have run into the same problem, so that means the witnesses are going to have to bear with the rather heavy dose of me this morning.

I will not be constrained by any 5-minute rule. Nor will I go two or three rounds. We will simply start in, and I will cover as many of my questions as I can, and on behalf of some of the other Senators, ask theirs as well.

We are pleased this morning to have what are somewhat familiarly called "the Unders" this morning; that is, we have four Under Secretaries and Dr. Collins, who is the Chief Economist, and I am sure ranks and is paid as an Under Secretary of the Department of Agriculture. Title inflation seems to have set in everywhere. I remember when there was one Under Secretary in the whole Department. But he is now the Deputy Secretary, and former Assistant Secretaries have become Under Secretaries, and I don't know what it is that has become an Assistant Secretary or how it has worked out.

Nonetheless, these are the men who do much of the heavy lifting in the Department, and we appreciate your being here and sharing your testimony with us as we proceed.

PREPARED STATEMENTS

This will be the second hearing of this subcommittee dealing with the 2004 appropriations bill. Last week, we had Secretary Veneman, who was very helpful to us in her presentation, and we have another hearing scheduled for next week.

[The statements follow:]

PREPARED STATEMENT OF SENATOR CONRAD BURNS

Thank you, Mr. Chairman for holding this hearing. I believe we had a very successful and informative hearing last week and look forward to today's testimony.

I would also like to thank the witnesses for joining us here today.

Dr. Penn, I know from being in this business for a while that the only time we hear anything is when we've done something wrong. I would like to take this opportunity to thank you and your staff for your hard work on the Drought Disaster package.

As is often the case, the devil is in the details and that was never truer than in the details of the Crop Disaster Program. I talked to you a number of times myself on this issue.

Additionally, I have heard from a number of the wheat and barley producers in Montana and they said you were always responsive to their concerns and you where willing to work with them on the problems.

Maybe I should repeat that. You were responsive to the concerns of the agriculture producer. That is what it is all about folks. That is why are here in the first place. That is why USDA was formed.

Thank you for that willingness to work with producers and I urge you to get those checks out to the farmers as soon as possible.

PREPARED STATEMENT OF SENATOR HERB KOHL

Thank you, Mr. Chairman, and welcome to all our witnesses here today. I will be brief.

Today's panel centers on the mission areas of USDA that have the most direct impact on Rural America. There is much concern today about the national economy and how it is suffering compared to recent years. We must remember that much of Rural America did not share in all the prosperity that the rest of the Nation enjoyed over the past decade, and conditions on the farm are, in many cases, worse than ever. Wisconsin dairy farmers, for example, face record low prices, increasing costs, and this market squeeze is devastating.

I have some concerns about the delivery of many of the programs available to support the farm sector. In regard to international programs, there are tremendous challenges we face regarding trade impediments and we must not lose sight of our responsibilities regarding humanitarian food assistance.

In comparison to overall federal spending on research, agricultural research lags far behind, in spite of the fact that such research is tied to the production, maintenance, and safety of our food supply. Clearly, protection of our food supply is one of our greatest responsibilities.

Mr. Chairman, thank you and I look forward to our witnesses statements.

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Chairman Bennett, thank you for holding this important hearing today on the USDA's fiscal year 2004 Budget. I look forward to working with you, Senator Kohl, and my Subcommittee colleagues on the farm economy and rural sector. I would like to welcome our witnesses Keith Collins, USDA Chief Economist, J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services, Mark Rey, Under Secretary for Natural Resources and Environment, Dr. Joseph Jen, Under Secretary for Research, Education and Economics and Thomas Dorr, Under Secretary for Rural Development. I would also like to thank others in USDA who submitted testimony for today's hearing.

I'd like to take a few minutes this morning to talk about some very important issues that affect the Department, and my home state of Illinois. When I go back to Illinois, one of the things I hear from farmers is: How can we get the rural economy back on track? As you know, there are over 60 million people that call rural America home. Illinois has a significant rural community so I am pleased to see USDA is committed to creating new economic opportunities and improving the quality of life for a diversified rural population.

One issue of importance is to make sure our rural communities have access to the kinds of technology, business opportunities and affordable housing that we have in other parts of the country, so that rural America will not be left behind. We must work on economic growth in rural America.

Illinois is one of our country's most important agricultural contributors. Illinois farm land, which accounts for about 27 million acres, is considered some of the most productive in the world. More than 76,000 farm families in the state produce corn, soybeans, wheat, beef, pork, dairy products, and specialty crops. Illinois exports more than $3.4 billion worth of agricultural products. The state's agribusiness activity is vibrant. From the Chicago area to Decatur and throughout Illinois, agricultural processing employs thousands of people. And our researchers at the University of Illinois as well as at other institutions, continue to help provide answers to some of the most common as well as the most complex, agricultural questions we face.

I would like to bring attention to the USDA's Rural Development budget. The rural utilities water and waste disposal system is an important program for Illinois (For fiscal year 2003; total direct loans, $23 million, guaranteed loans, $1.5 million and grants, $3.4 million) and the rest of the country. As stated by Administrator Hilda Gay Legg's submitted testimony, the need for water and waste disposal systems are still significant and are likely to grow as a result of expanding populations in certain rural areas, changes to water quality standards, drought conditions and similar factors. I know the additional funding provided by the Farm Bill helped reduce backlog for assistance and it is my hope we will be able to reduce the backlog in a timely manner.

I would also like to take a minute to comment on research and education and to stress how important I feel they are to USDA. Though agriculture research we have the opportunity to face challenges to our Nation's food and agriculture system.

I am planning on introducing legislation again this year to ensure the safety of genetically engineered foods, a fast-growing segment of our food supply that shows much promise, but which also must be adequately regulated to assure consumers of biotech products' safety and effectiveness. Through genetic engineering, scientists are hoping to address world hunger, develop new drugs and create alternative fuel sources to help solve many of the social problems that vex us today. My bill will ensure these efforts continue, but require a mandatory, public approval process that deems such foods and products safe before they are put in the marketplace. In today's global marketplace, it is critical that we demonstrate the safety of these foods and products through a scientific-based approval process.

Chairman Bennett and Senator Kohl, thank you again for the opportunity to talk about these issues and the fiscal year 2004 Budget.

Senator BENNETT. Gentlemen, we appreciate your being here. Let's hear from you, probably from my left to my right. Let's start with Dr. Jen, who is the—okay. Let's start with my right and go to your left. We will start with Dr. Collins, who is the Chief Economist at USDA. Doctor, we appreciate your being here. For the record, this is Dr. Keith Collins.

OFFICE OF THE CHIEF ECONOMIST

Dr. COLLINS. Thank you very much, Mr. Chairman. I am happy to go in whatever order you would desire.

This morning, you are going to hear the budgets profiled for programs that generally represent American agriculture and rural areas, and what I think I will do is begin not by talking about my budget but instead talking a little bit about the perspective that these programs will operate in, in the current year, and where the agricultural economy might be heading in the future.

U.S. AGRICULTURAL ECONOMY

In a nutshell, like most sectors of the U.S. economy, U.S. agriculture has been restrained by slow global economic growth. We have had a high value of the dollar over the last couple of years, lots of production in competing countries. We have had declining prices. We have had bad weather. And all of these things have also limited growth.

But the agricultural economy has been improving over the past year. I think it is going to continue improving, but I think the recovery is going to be gradual. It is going to be uneven. And I think in some sectors it will lag, such as in dairy.

The world economy is expected to grow only about 2 percent this year. That is about the same rate of growth of the world economy last year. And some of our major markets are growing even slower, such as in Japan and the European Union. Nevertheless, a number of countries appear to be doing better, such as Latin America, and with that better growth and with a declining value of the dollar, we think U.S. agricultural exports will be up $4 billion this year to $57 billion, although we will again look at that number and possibly revise it on May 27th.

The stronger exports and the higher farm prices that have followed from last year's below-trend production are boosting farm revenues. Farmers' receipts from the sale of products in the marketplace are expected to be up about $7 billion this year, exceed $200 billion, and I think that is a very healthy gain. And we are seeing receipts up for both crops and for livestock.

I think the most important observation I can make—and we just released our first forecasts for the 2003–2004 marketing year—about the coming year, year and a half, is that U.S. agricultural markets generally look to be in pretty good balance. If you look at grain stocks, they are in desirable ranges. Oilseed stocks are, in fact, very low. Cotton and rice stocks are finally declining after being persistently high for some time.

Average farm prices are up, and that is leading to very sharp reductions in the costs of farm programs such as the Marketing Loan Program.

Crop production this year is expected to rise, assuming we have average weather, which we can't predict yet at this time. For example, we expect that wheat production will bound back and be up 31 percent from last year's drought crop. Corn and soybeans are expected to also increase, cotton probably stabilize, and rice decline, and that will help continue the price increases we have been seeing for cotton and rice over the past year.

Now, although exports of grains over the past year have been pretty weak, soybean exports have been record high, and cotton exports were the highest or we think will be the highest in 75 years this year.

Looking ahead to the coming season, soybeans exports are likely to decline as South America continues to expand sharply. But grain exports should increase and cotton could possibly set an all-time record high.

Livestock markets are finally looking fundamentally bullish. We have had weather disruptions and trade disruptions over the last couple of years, and that has caused liquidations and prices to go down. I think those downward trends are beginning to turn, and the recovery could be very sharp over the next couple of years. But that is a conclusion, I think, that very much depends on what is going to happen with forage and range conditions.

You, Mr. Chairman, probably know as well as anyone the hurdle that livestock producers face because in looking at the current drought monitor, I see that Utah remains the only State in the Nation where every single county is either in extreme or exceptional drought. And so that is a hurdle for livestock producers in battling back.

With cattle and hog inventories down and poultry output being cut back, we think that meat production will be lower in 2003. We think it will be lower again in 2004. And that is going to push prices of cattle, hogs, and broilers up probably 10 to 15 percent this year, and up again next year, and we could possibly see a record high cattle price in 2004.

Dairy remains our most unbalanced sector. We have weak demand. We have dairy product stocks at record highs. We have prices at 20-year lows. Our programs, however, I think have been stabilizing. We are regularly buying cheese, butter, and nonfat dry milk, and so far, since the program started, we have spent about $1.3 billion in the Milk Income Loss Contract Program.

Summing up, for 2003, net cash farm income is expected to be up about 11 percent as market receipts grow, Government payments rise. Excluding Government payments, market income will be flat, and I think that reflects a sharp increase in production expenses. We are seeing prices for key input items up, feeder cattle, fertilizer, and energy-based inputs.

Farmland values remain strong. We think when the final data come in, they will be up 4 percent for 2002. We are predicting 1.5 percent for 2003. And I think the higher asset values are keeping the farm balance sheet in reasonably good shape.

The performance of the non-farm economy is also crucial for farm households since three out of four farm households earn the majority of their income off the farm.

PREPARED STATEMENT

It is now a way of life for farms to be under pressure daily to raise productivity, to adopt new technology, to lower their production costs, to farm sustainably, to raise product quality, and to respond to consumer tastes and preferences. And I think as they do these things, they are going to need more than ever USDA's commodity, conservation, rural development, and research programs.

And, with that, that completes my comments, Mr. Chairman.
[The statement follows:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss the current situation and outlook for U.S. agriculture. In general the agricultural sector should show improvement this year after several years of low prices. However, recovery is expected to be slow and uneven, with some sectors such as dairy continuing to lag.

Outlook for United States and World Economies and the Implications for Agriculture

Macroeconomic factors, such as the exchange value of the dollar and slow economic growth around the world, have constrained demand for U.S. agricultural products and farm prices and will continue to do so over the next year or more.

The past 2 years have been disappointing as far as the U.S. economy goes. We have been continually pushing out into the future the expected rebound. Six months ago, the blue chip economists' forecast of U.S. Gross Domestic Product (GDP) growth for 2003 was 3.5 percent. Now, it is 2.4 percent, the same as last year's growth rate. The U.S. economy in 2003 will face some of the same restraints it faced in 2002: excess capacity, low returns in many sectors, high consumer and business debt, low consumer confidence, high unemployment, and weak growth in Japan and Europe.

But on the positive side: interest rates are low; liquidity is substantial; consumer confidence is rising; oil prices have declined; and fiscal policy is expansionary and may get more so with enactment of a growth package that cuts taxes or provides other stimulus. Unfortunately, though, we do not foresee stronger economic growth for the United States, such as in the 3 to 3.5 percent range, until 2004, and unemployment remains high.

When the U.S. economy is very weak, as in the recessions in 1991 and 2001, growth in food consumption slows. It did pick up in 2002, but was still not very strong, rising only 1.7 percent, which is half the rate of growth in 1999, when the economy was stronger and consumers were more confident. With the economy likely to show limited growth this year, we can expect food spending to be similar to last year, perhaps slightly stronger.

Consumer spending at grocery stores in 2002 also grew slowly, rising 1.5 percent. However, sales were up 2.5 percent during the first quarter of 2003, compared with a year earlier. As the U.S. economy eventually starts growing faster, the farm economy will benefit from stronger domestic food sales. As we look to the future, we can expect American consumers to continue to shift their consumption patterns as factors like income, population diversity, age, diet and health awareness drive change. Per capita consumption for such foods as fruits, vegetables, yogurt, eggs, poultry, grains, and nuts are likely to grow, while milk, red meats and potatoes may face declines.

World economic growth continues to be slow. Global GDP is forecast at only 2.0 percent in 2003, similar to last year's 1.9 percent. While mild U.S. growth will restrain overall foreign growth, growth for most of our trading partners, with the exception of Japan and the European Union, is expected to be moderate. Economic growth in Asia is forecast at 5.4 percent in 2003, down slightly from the 5.8 percent growth in 2002. Mexico's GDP is expected to continue its slow recovery, with 2003 growth forecast at 3.0 percent. Likewise, Brazil and Argentina should see positive growth this year after the sharp devaluations and recessions in 2002.

Despite the weak global economy, the value of U.S. agricultural exports is forecast to reach $57 billion in fiscal 2003, the fourth consecutive annual increase. We are within striking distance of the record $60 billion achieved in fiscal 1996. Much of the increase is due to stronger farm prices rather than volume gains. The value of agricultural imports has also risen during that same period, but so has our agricultural trade surplus.

Although the dollar remains relatively strong, especially against Latin American currencies, it has depreciated against the euro, Canadian dollar, and the yen. On a weighted-average basis, against the currencies of our major markets, the dollar has fallen steadily since early 2002. Although no precipitous drop in the dollar is anticipated, we are likely to see a slow decline against major currencies over the rest of the year and into 2004. The United States is running a record current account deficit, which requires financing from overseas. However, the combination of low real interest rates in the United States and a listless economy is unlikely to attract foreign investment. Thus, for the moment, the fundamental direction for the dollar has to be down. This is good news for export prospects.

USDA released its long term baseline projections on February 7th. They suggest some of the export pressures and opportunities U.S. farmers may face in the future. Exports are seen rising to the 1996 record of $60 billion by 2005 and then to nearly $72 billion by 2010. But the projected growth is all in intermediate and consumer ready products. By contrast, bulk commodities are expected to face continued very strong competition. For many of the bulk products, their best entry into export growth markets will be in value-added and processed form, such as feed grains and protein meals exported as meat.

Outlook for Major Crops

Weather remains the dominant factor shaping the near-term outlook. Drought in key areas in 2002, notably in Australia, Canada, and the United States, depleted crop supplies in traditional exporting countries, and drought in Africa expanded global food aid needs. Weather raised many U.S. crop prices, and these higher prices are carrying into the first half of 2003. However, a rebound in yields and strong competition especially from traditional competitors will likely cause a pull back in prices. The major uncertainty in this conclusion is the ongoing drought in the west, although precipitation has helped in recent weeks.

Wheat plantings for 2003/2004 are estimated at 61.7 million acres, up 1.3 million (2 percent) from 2002, as gains in winter wheat more than offset lower spring wheat plantings. Winter wheat seedings are 6 percent above last year, with most of the increase in hard red winter (HRW). Soft red winter (SRW) plantings are down as prolonged wet conditions resulted in reduced seedings in parts of the Delta, Southeast, and Atlantic Coast and offset gains in the Midwest. Farmers indicated in March that they plan to plant 7 percent less land to other spring wheat and 3 percent fewer durum acres than in 2002.

Wheat prices are down sharply from the highs of last fall and alternative crops are offering better returns than spring wheat. For example, contract prices for malting barley are up sharply from last year, due to drought-reduced supplies in the United States and Canada.

While wheat planted area looks like it will expand less than previously expected, wheat production is forecast up more than 30 percent from last year's unusually poor crop. Harvested acres are forecast up 6.9 million acres (15 percent) and yields up 4.8 bushels per acre (14 percent). If this projection materializes, larger production would more than offset the smallest carryin stocks since 1996/1997, leaving 2003/2004 supplies almost 185 million bushels above 2002/2003.

Food use likely will increase, but at a rate less than population growth due to changes in diets and baking technology that have extended the shelf life of bakery products. Feed and residual use, forecast at 175 million bushels, will be up sharply from the unusually small 125 million bushels in 2002/2003. Reduced wheat prices, especially during harvest, will promote the use of wheat for feeding. Hog and poultry feeders in the Southeast and Atlantic Coast areas and cattle and hogs feeders in the Plains likely will see relatively high prices for corn during the early summer. These areas had poor corn and sorghum crops in 2002 and will have to bear the cost of transporting feed corn from a greater distance than usual.

U.S. 2003/2004 wheat exports are estimated at 950 million bushels, an 8.6 percent increase over 2002/2003 levels. The United States will face increased competition from expanding production in the major foreign exporters, especially Australia and Canada, and declining competition from Russia, Ukraine, and Eastern Europe.

Total wheat use in 2003/2004 is expected to increase about the same as supplies, leaving ending stocks little changed from a year earlier. Prices received by farmers are expected to average $3.05 to $3.65 per bushel, compared with $3.56 in 2002/2003. Large U.S. winter wheat supplies, declining global imports, and sharply expanding production in Australia and Canada will provide little opportunity for prices to rebound as the year progresses. However, if crops in the major foreign exporters do not rebound strongly from 2002/2003, U.S. prices will rise sharply to ration limited supplies, because the "minor" exporters will not have the supplies available to step in and meet market needs, as they did this past year.

U.S. rice producers intend to plant 3.0 million acres in 2003, down 6 percent from last year, and a decline of 8 percent from the preceding 5-year average. Planted area in long-grain rice is down 9 percent from last year, while combined medium-and short-grain plantings are up 5 percent. Poor market prices is the primary reason for the decline in expected plantings. The recent strengthening of U.S. prices due in part to anticipated significant food aid purchases destined for Iraq could offset some of the expected decline in planted acres.

Assuming trend yields, U.S. rice production in 2003/2004 is expected to be down about 5 percent from last year's bumper crop. Average rice yields have jumped higher in the last several years due to the introduction of higher-yielding long-grain varieties in the South. Production of long grain rice is expected to be down about 9 percent from 2002/2003, while combined medium- and short-grain rice production will be up fractionally. Domestic and residual use is expected to be up slightly and on trend, while U.S. exports are expected to be down 26 percent from record 2002/2003 levels because of reduced supplies and keen international competition. Ending stocks are expected to total 22.1 million cwt, about the same as 2002/2003. The season-average price is expected to be $1.10 per cwt higher than 2002/2003 due to tighter domestic supplies.

Global rice trade for calendar year 2003 is projected to contract slightly with global rice prices below the levels of the 1990s. For example, Thai 100b long grain milled rice was quoted at about $209 per ton as of early April compared to $194 per ton a year ago and $276 per ton 2 years ago. In 2002, India subsidized the majority of its exports in an effort to reduce burdensome stocks thereby pressuring rice prices. India is currently reviewing its export policy for 2003 and may decide to reduce the level of export subsidies as its stocks are worked down.

In 2003, Thailand will continue to be the world's predominant exporter with exports projected at 7.5 million tons, 4 percent above 2002. The other top exporters will include Vietnam and India at 4.0 million tons each, followed by the United States at 3.4 million tons and China at 2.25 million tons. Indonesia is projected to be the largest importer with imports of 3.25 million projected for 2003, 7 percent below 2002. Other large importers include Nigeria at 1.5 million tons, Iran at 1.25 million tons, and the Philippines at 1.2 million tons.

In March, U.S. corn farmers indicated they will plant marginally fewer acres to corn than the 79.1 million seeded in 2002 and well below industry expectations for a 1 to 2 million acre increase. The expected expansion in corn acres may not occur because of lower acres in the Great Plains, where lack of irrigation water, concerns about high energy prices, and lack of soil moisture reserves changed farmers' intentions. Corn harvested acreage for grain is forecast at 72 million acres and yield is forecast at 139.7 bushels per acre, based on a simple linear trend over crop years 1960–2001 and is well above the 130 bushels per acre in 2002 and the 1994 record of 138.6. Thus, corn production is forecast at 10.1 billion bushels, up more than 1 billion from 2002. However, reduced carryin stocks will be partially offsetting and total supplies are projected at 11.1 billion bushels, up around 510 million from 2002/2003.

Projected 2003/2004 corn feed and residual use is down slightly from a year earlier, but food, seed, and industrial use is expected to increase 4 percent, following a 11-percent gain in 2002/2003. While most uses are expected to show little change, corn used for ethanol production is projected to increase 8 percent from the rapidly expanding levels of 2002/2003.

The global setting for feed grain trade in 2003/2004 is more favorable than that for wheat, but U.S. corn exports will continue to face strong competition from corn from Argentina and China and feed wheat from India and the Black Sea region. However, an expected 20-cents-per-bushel drop in the U.S. farm price of corn will make U.S. corn more competitive. China's corn exports continue to be the biggest unknown. Corn plantings in China are expected to decline as some producers switch to soybeans in response to various Government incentives and a reduced protection price for corn. However, the volume of China's corn exports will continue to largely depend on the level of Government export incentives. U.S. corn exports are projected at 1,850 million bushels, up 225 million from the 2002/2003 forecast.

Corn ending stocks for 2003/2004 are projected at 1,304 million bushels, a rise of less than 250 million from the forecast 2002/2003 level. The projected farm price of $1.90 to $2.30 compares with a forecast price of $2.30 for 2002/2003.

Soybean production in 2002/2003 was 2.7 billion bushels, down about 5 percent from the record level achieved a year earlier. Despite reduced total use, ending stocks are projected to decline to 145 million bushels, the lowest since 1996/97. At these levels, the soybean stocks-to-use ratio is the lowest in 30 years. Before the dramatic expansion of soybean production in South America in recent years, stocks at these levels would have been associated with much higher prices. However, with soybean production in South America significantly exceeding that of the United States, farm level prices are likely to average only $5.50 per bushel.

Soybean producers in March indicated intentions to plant 73.2 million acres for 2003, down 0.6 million acres from 2002. If realized, soybean acreage would decline for the third consecutive year. Although net returns and crop rotations favor a shift toward corn this year as evidenced by the intentions of producers in the Eastern Corn Belt, producers in the Northern Plains are planning to further expand soybean acreage, a trend that began in the mid 1990's. With a return to trend yields, production is expected to reach 2.9 billion bushels, up 4 percent from 2002.

Domestic soybean meal demand is projected to grow at a moderate 1–2 percent, limited by slow expansion in poultry and hog production and increased availability of other protein meals. With large competitor supplies of soybeans, soybean meal exports are likely to remain relatively weak as well. Soybean meal prices are projected to decline 6 percent from 2002/2003 levels.

Much of the world's 2003/2004 soybean demand growth will come from China and other Asian markets. Demand is also rising in Latin America, the Middle East and North Africa. In 2002/2003, China is forecast to import a record 16.5 million tons, exceeding its domestic soybean production for the first time. U.S. exports to China will reach record levels in 2002/2003. However, record South American soybean crops will leave world supplies high in the fall of 2003, and likely will limit export growth for the United States for both soybeans and soybean meal. Consequently, U.S. soybean exports are projected to decline about 5 percent in 2003/2004. With larger supplies and limited demand growth for U.S. soybeans, ending stocks are expected to increase to above 200 million bushels for 2003/2004. With higher stocks and continued prospects for larger foreign soybean production, soybean prices are projected to drop below $5.00 per bushel for the 2003/2004 marketing year.

Cotton production for 2002/2003 was 17.2 million bales, a reduction of 15 percent from the preceding year's record. Domestic mill use has stabilized after a 13-percent drop in 2001/2002 and is forecast at 7.6 million bales. Lower foreign production and higher foreign consumption are supporting exports at a level near last season's 11.0 million bales—the current forecast is 10.8 million bales. With total use approaching that of last season, ending stocks are expected to fall 17 percent to 6.3 million bales. The reduction in stocks, combined with higher world prices, has raised farm prices more than 40 percent from last season's 29-year low.

Cotton producers intend to plant 14.3 million acres in 2003, 2 percent more than last year. While cotton prices have risen, so have prices for alternative crops. The small increase in area is primarily a result of a more certain environment following passage of the 2002 farm bill. With average abandonment and yields, production would be about the same as 2002's 17.2 million bales. Domestic mill use is likely to stabilize or fall slightly in 2003/2004, as U.S. mills continue to have difficulty competing with textile imports. Exports, however, could rise to a record 11.5 million bales. If these forecasts are realized, stocks would be drawn down to about 4.7 million bales, which is a relatively tight 25 percent of total use, and cotton prices would likely continue to rise.

World cotton stocks are forecast to fall to 36.6 million bales at the end of 2002/2003, their lowest level since 1994/1995. A combination of lower area and unfavorable weather cut world production more than 10 percent; at the same time, demand has probably has been helped by low cotton prices vis-a-vis polyester. While global cotton production is likely to rebound in 2003/2004 in response to higher prices, it will be difficult to offset the reduction in stocks experienced in 2002/2003 and, at the same time, satisfy further increases in demand. Therefore, world stocks are anticipated to remain tight through the 2003/2004 season.

U.S. sugar production in 2003/2004 likely will increase, assuming average weather, following last year's damaging storms in Louisiana and below-average sugarbeet yields in many northern States. However, if sugar consumption returns to near-normal growth, supplies likely will not be burdensome to producers. A major uncertainty in the near future is how to accommodate a completely integrated North American sweetener market, as will happen by 2008 under the North American Free Trade Agreement. Additional uncertainties could develop in the next round of WTO trade talks, and as the United States works toward bilateral and regional free trade agreements.

The outlook for U.S. sugar markets largely will be driven by the sugar program. At present, marketing allotments are being used to prevent sugar loan forfeitures and maintain the program at no cost to the taxpayer, as directed by the 2002 Farm Bill. Allotments have been in effect since October 2002, and raw sugar prices have averaged 22 cents per pound while refined sugar has averaged 27 cents per pound. As long as sugar imports do not exceed the legislated trigger, marketing allotments will remain in place and prices likely will continue at these levels.

At $11.3 billion forecast for 2002/2003, horticultural exports account for 20 percent of total agricultural exports and a significant portion of horticultural farm sales. Reduced growth rates began with the Asian financial crisis and continued with stagnating prospects in the European Union. While fresh citrus, processed fruits and vegetables, wine, and nursery/greenhouse products have stabilized, prospects have been stronger for fresh vegetables and deciduous fruits, tree nuts, and juices.

The outlook for horticultural crops is a return to trend growth in farm sales, following a strong performance in 2002/2003. Fruit and vegetable farmers earned

$28.4 billion from the 2002 harvest, up $1.6 billion and well above trend growth. The increase resulted from higher output and prices. Fruits and vegetables, which have accounted for 30 percent of all horticultural crop values in recent years, are sharply up from a 22-percent share for 1996. In addition, greenhouse/nursery crop sales likely will top $14 billion in 2003, increasing $600 million following flat growth in 2002. Export growth, however, has slowed to only $200 million annually during the last 5 years, much lower than $700 million yearly growth leading up to 1997.

Outlook for Livestock, Poultry and Dairy

The livestock, poultry, and dairy sectors experienced a stressful year in 2002 as weather, disease, trade disruptions, record production, and low prices affected markets. Price prospects for the livestock and poultry sectors are much improved for 2003, but the outlook for the dairy sector remains guarded.

Commercial beef production in 2002 reached a record 27.1 billion pounds as drought conditions caused producers to continue to reduce their herds. With record beef production, as well as record pork and broiler production, Choice Nebraska steer prices fell nearly 8 percent to $67.04 per cwt.

U.S. commercial beef production is forecast at 26.2 billion pounds in 2003, 3.2 percent lower than in 2002. After wheat grazed cattle are placed in feedlots this spring, feeder cattle supplies are expected to tighten, especially if forage conditions improve, enabling producers to hold back heifers for herd rebuilding. Cattle slaughter is expected to decline year-over-year during the second half of the year, ending 3.5 percent lower. Choice Nebraska steer prices in 2003 are forecast to be $76 per cwt, an increase of 14 percent from 2002. Firm beef demand and tighter cattle supplies pushed prices to about $78 per cwt in the first quarter of this year. After a seasonal decline during the spring, steer prices will then increase to the upper $70's per cwt.

Beef exports in 2002 rebounded from the BSE-reduced import demand of 2001. Although sales were weak to Japan, U.S. exports to Mexico and Korea reached record levels. In 2003, beef exports are forecast to be about the same as in 2002 as Japan remains weak and tighter supplies limit growth but then rise 3–4 percent in 2004 as the world economy improves.

Herd liquidation continued for the seventh consecutive year in 2002. The cattle herd on January 1, 2003, was 96.1 million head, about 1 percent lower than a year earlier. Herd expansion is not expected this year as most heifers retained this year will not calf until 2004. Signs of heifer retention likely will appear by late May or early June as producers finalize retention decisions. For 2004, another decline in beef production is expected and fed cattle prices could reach record high levels.

In 2002, pork production increased 2.7 percent to a record 19.7 billion pounds. Hog imports from Canada climbed to more than 5.7 million head last year, and 66 percent of the imports were feeder pigs mainly destined for finishing operations in the Midwest. Increased pork supplies last year resulted in an average hog price of about $35 per cwt, nearly $11 below the previous year's price.

Given last year's price weakness, the industry appears not to be expanding in 2003. Beginning with the 4th quarter of 2002 and continuing into 1st quarter 2003, producers reduced the number of sows farrowed by about 2.5 percent. Producers also indicated they intend to farrow 3 percent fewer sows through August 2003. This would result in a smaller pig crop and fewer hogs to slaughter in 2003 and into 2004. Consequently, pork production is forecast at 19.5 billion pounds in 2003, 1 percent lower than in 2002, with another 1 percent drop in 2004. Hog prices are forecast at $38–$39 per cwt in 2003, up 9–12 percent over 2002, with a further price increase in 2004 into the low $40's per cwt.

Pork exports increased 3.5 percent in 2002, due to rising shipments to Japan and Korea. In 2003, exports are forecast to increase nearly 3 percent and another 2 percent in 2004.

Whole-bird broiler prices dropped 6 percent to 55.6 cents in 2002. Parts prices were even weaker as the broiler sector, which exported nearly 18 percent of production in 2001, was hit with trade disruptions caused by disease outbreaks and trade disagreements with Russia over antibiotic use and processing plant inspections. Northeast leg quarter prices were 28 percent lower in 2002 than in 2001. Meat that could not be exported led to burdensome broiler stocks which weighed on other prices. In response to the price weakness last year, broiler producers began to scale back production in the fall of 2002. Hatchery data indicates that eggs set in incubators and chicks placed on feed have been below year ago levels since last September, except for 1 week.

As a result of these cutbacks, broiler production in 2003 is forecast to increase just 0.2 percent, the smallest year-to-year increase since the early 1970's. Higher prices may result in production increases beginning in the later part of the year and continue into 2004 when a 1 percent increase is projected. Broiler prices in 2003 are forecast at 60–62 cents per pound, up 8–12 percent, and the highest average price since 1998, and hold there in 2004.

Broiler exports fell nearly 14 percent in 2002 because of disease outbreaks and a Russian ban on poultry imports. Exports in 2003 are forecast at 5.0 billion pounds, 4 percent higher than last year. In an attempt to stimulate domestic production, Russia imposed a 1.05-million-ton quota on poultry imports for the next 3 years. The quota goes into effect at the beginning of May, and the quota quantity is prorated at 744,000 tons for 2003. The United States was allocated 553,500 tons under the quota in 2003. Under this scenario, the United States will not export to Russia much more than levels from a year ago because of trade uncertainties early in the year and the quota limitations beyond April.

In 2002, milk production increased 2.5 percent to 169.8 billion pounds. Output per cow gained more than 2 percent and the number of milk cows were slightly higher as producers responded to the high prices of 2001. However, in the face of expanded production and slowing demand, the all-milk price fell to $12.11 per cwt, 19 percent below a year earlier. Prices for butter, cheese, and nonfat dry milk (NDM) were considerably weaker in 2002 as fat basis commercial use languished at just 0.5 percent above 2001 and skim-solids use declined. With increased milk production and weaker commercial use in 2002, Commodity Credit Corporation (CCC) purchases of nonfat dry milk were 66 percent higher than in 2001, and cheese purchases were 4 times the level of the previous year.

For 2003, the all-milk price is expected to drop around 7 percent to $11.10–11.60 per cwt. Milk production is forecast to increase 1 percent to 171.4 billion pounds on continued gains in output per cow. Although beginning the year fractionally above 2002, cow numbers are expected to drop slightly this year. Cow numbers have remained higher than expected because exits from the dairy industry have been slower than anticipated over the past year. The Milk Income Loss Contract program likely has provided many producers with a cushion against low milk prices. Commercial use is expected to increase about 2 percent in 2003 but not enough to boost prices given the abundant supply of milk and stored products. As a result, CCC purchases of butter, cheese, and NDM are expected to remain substantial.

Farm Income Outlook

The U.S. farm economy was under financial stress in 2002, but it is on an improving footing in early 2003. Some producers, especially those affected by weather, do face serious problems. However, because of structural diversity and preventive steps, most in agriculture are enduring. While prospects for 2003 look stronger for many producers, a boom is not in sight.

In 2002, farm cash receipts for crops rose slightly, but livestock receipts fell $10.5 billion as prices fell sharply under the big, drought-driven increase in meat production and slower meat exports and lower milk prices. Another factor affecting farm income was the slow pace of farm program signup, which resulted in $4 billion in government payments being shifted from the fall of 2002 into 2003. These factors combined to reduce farm income in 2002 quite sharply and cause it to drop below the levels we forecast a year ago. Net farm income, which includes noncash items such as depreciation and inventory change, fell 29 percent in 2002 from the 2001 level. Net cash farm income, which is gross cash income minus total cash expenses, fell 22 percent.

In 2002, net cash income, the income an operator has left over to pay living expenses, capital costs and service debt, was at its lowest level since the mid 1980s. The big drop indicates many producers faced tight budget constraints in 2002, particularly those in weather-affected areas. Income declines occurred in all regions and were especially pronounced for hog and dairy operations. This continues to pressure input markets such as machinery sales. Many bankers tightened collateral requirements as their unease grew during 2002. On the other hand, loan delinquencies have been modest, farm interest rates remain low, and banks remain in sound condition with ample loanable funds.

Several factors contribute to the economic resiliency of many farm households. First, three out of four farm households earn the majority of their income from off-the-farm sources. This reduces the impact of farm income changes—either up or down—on their well being. Second, the farms most dependent on farm income are the 10 percent of farms that produce two-thirds of the output and receive the bulk of U.S. agricultural support. These farms, on average, have household incomes that are well above the national average and remained so in 2002. Third, the value of farm assets continues to grow, giving some financially stressed producers a chance to weather a down period by selling some assets or borrowing against them.

For 2003, net cash farm income is expected to rebound by 11 percent to over $51 billion, as both crop and livestock receipts grow and government payments rise. If government payments are excluded, net income from the market is expected to be little changed, as farm production expenses rise reflecting higher feed and feeder cattle costs and higher energy and fertilizer expenses. Farmland values remain strong, rising an estimated 4 percent in 2002, but are expected to rise at a slower 1.5 percent in 2003, reflecting the reduced cash income in 2002 and restrained market income expectations in 2003. For 2003, with slow growth in asset values but another boost in debt levels, the farm debt-to-asset ratio is forecast to move up to 16 percent a still healthy figure but the highest since 1998.

As always, these observations about the farm economy must be weighed in light of a number of uncertainties. There are many: the aftermath of the war in Iraq and its uncertainties; the global economy, its pace of recovery, the influence of uncertain factors such as SARS and the behavior of exchange rates; foreign nations' farm and trade policies, especially China for crop imports and exports, and places like Russia and Japan for meat imports; and finally, the weather, here as well as abroad.

FARM ECONOMIC INDICATORS COMMODITY PRICES

	Unit	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Commodity Prices:								
Wheat	$/bu	3.38	2.65	2.48	2.62	2.78	3.56	3.35
Corn	$/bu	2.43	1.94	1.82	1.85	1.97	2.30	2.10
Soybeans	$/bu	6.47	4.93	4.63	4.54	4.38	5.50	4.95
Rice	$/cwt	9.70	8.89	5.93	5.61	4.25	4.15	5.25
Cotton	cents/lb	65.20	60.20	45.00	49.8	29.8	[1] 42.5	....

[1] August through March average.

FARM ECONOMIC INDICATORS COMMODITY PRICES

	Unit	1998	1999	2000	2001	2002	2003	2004
Commodity Prices:								
Hogs	$/cwt	34.72	34.00	44.70	45.81	34.92	38.50	42.50
Steers	$/cwt	61.48	65.56	69.65	72.71	67.04	76.50	80.50
Broilers	cents/lb	63.00	58.10	56.20	59.10	55.60	61.00	60.50
Milk	$/cwt	15.46	14.38	12.40	14.97	12.12	11.35	11.65
Gasoline [1]	$/gallon	1.07	1.18	1.53	1.47	1.39	1.56	1.43
Diesel [1]	$/gallon	1.04	1.12	1.49	1.40	1.32	1.53	1.38
Natural gas (wellhead) [1]	$per1,000 cubic ft	1.96	2.19	3.69	4.12	2.95	4.52	3.95
Electricity [2]	$/kwh	8.26	8.16	8.24	8.48	8.41	8.52	8.37

[1] Source: Energy Information Administration, Short Term Energy Outlook, April 2003.

FARM ECONOMIC INDICATORS TRADE

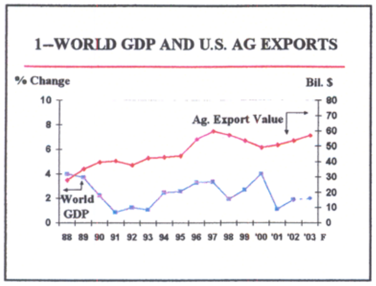
	Fiscal Year							
	1997	1998	1999	2000	2001	2002	2003	2004
Agricultural Trade (Billion $):								
Total exports	57.4	53.6	49.1	50.7	52.7	53.3	57.0	NA
Asia	23.9	19.7	18.5	19.7	20.1	19.4	20.9	NA
Canada	6.6	7.0	7.0	7.5	8.0	8.6	9.1	NA

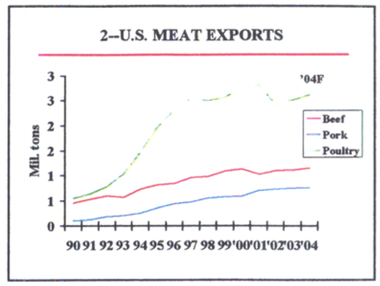
FARM ECONOMIC INDICATORS TRADE—Continued

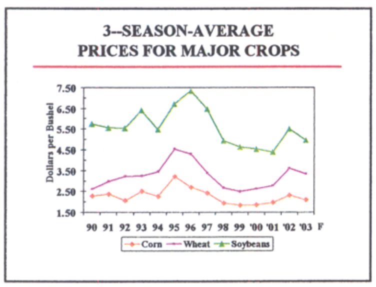
	Fiscal Year							
	1997	1998	1999	2000	2001	2002	2003	2004
Mexico	5.1	6.0	5.7	6.3	7.3	7.1	7.9	NA
Total imports	35.7	36.8	37.3	38.9	39.0	41.0	43.0	NA

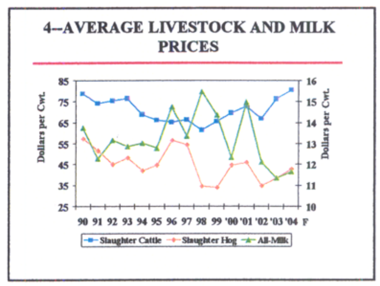
FARM ECONOMIC INDICATORS FARM INCOME

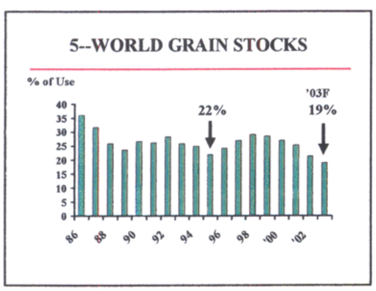
	Fiscal year							
	1997	1998	1999	2000	2001	2002	2003	2004
Farm Income (Billion $):								
Cash receipts	207.6	195.8	187.5	193.7	202.8	193.5	200.5	NA
Govt payments	7.5	12.4	21.5	22.9	20.7	13.1	17.6	NA
Gross cash income	227.3	222.2	224.0	230.4	238.5	222.5	234.9	NA
Cash expenses	168.7	167.4	166.9	172.0	178.8	176.2	183.6	NA
Net cash income	58.5	54.8	57.1	58.4	59.7	46.3	51.3	NA

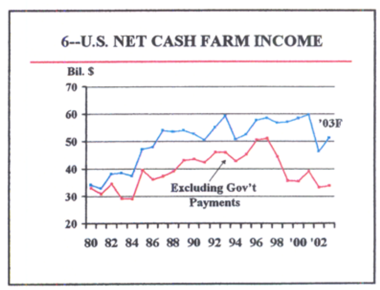












Senator BENNETT. Thank you very much.

Our next witness will be Dr. J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services. Dr. Penn?

FARM AND FOREIGN AGRICULTURAL SERVICES

Dr. PENN. Thank you, Mr. Chairman. It is a pleasure to be with you this morning, and I am pleased that you chose to describe us as "Unders" rather than "lessers."

As you know, I represent the Farm and Foreign Agricultural Service mission area of the Department, and that encompasses the Foreign Agricultural Service, the Farm Service Agency, and the Risk Management Agency, and the administrators of those agencies are with us this morning.

The programs and services of the Farm and Foreign Agricultural Services mission area are central to the Department's efforts to meet the challenges of agriculture in the 21st century and to enhance economic opportunity for America's farmers. The agencies of our mission area were very heavily involved in major activities related to the farm economy during the past year. As you know, the Farm Bill was enacted last May, and we immediately undertook the massive task of ensuring timely and effective implementation of that program and ensuring that we got the benefits to the agricultural sector on time.

As Dr. Collins noted, severe drought affected major parts of the country, and our risk management resources were taxed to meet the failure of the Nation's largest crop insurance company last year. And now we are very heavily involved in the task of implementing the Emergency Disaster Assistance Program, which was enacted on February 20th.

Now, at the same time all of those things were going on, the workload associated with the very ambitious international trade negotiation agenda has increased, and we are spending more and more time maintaining the existing markets that we have while the trade enforcement responsibilities also continue to grow.

The 2004 budget proposals that we are discussing today fully support continuation of all of these activities and ensure our continued efforts on behalf of America's agricultural producers.

FARM SERVICE AGENCY

I want to first briefly note the Farm Service Agency. That is USDA's primary vehicle for delivering assistance, and it is the one with which farmers and ranchers interact the most frequently. Because of FSA's important role in operating the farm programs, our budget proposal places a priority on enhancing the agency's ability to continue to assist our producers. We propose a 2004 program level for FSA salaries and expenses of $1.3 billion to support a ceiling of 5,900 Federal staff years and 10,800 non-Federal county staff years.

We also continue to strive to modernize our services. One important effort is the initiative to put the Geospatial Information System in place to replace hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and our service center agencies to electronically share and process information on farm records, soils, and aerial photography in ways that we believe will dramatically improve efficiency.

The President's budget proposes $42 million under the Office of the Chief Information Officer for FSA's component of the common computing environment to support this GIS and related activities.

Now, the Farm Service Agency also plays a critical role by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited-resource, and socially disadvantaged farmers and ranchers. And our budget proposal includes funding for $850 million in direct loans and $2.7 billion in loan guarantees, and we believe these amounts will be sufficient to meet the demand in 2004.

Now, for emergency disaster loans, our carryover funding from 2003 is expected to provide sufficient credit in 2004 to those producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

Now, very briefly, the Risk Management Agency. The Federal crop insurance program, as you know, is an increasingly important part of the safety net available to our agricultural producers. In 2002, crop insurance provided $37 billion in protection on 215 million acres. That is 4 million acres more insured last year than were insured in 2001. And because of the drought, we expect indemnity payments on the 2002 crops to exceed $4 billion, and that is well over $1 billion more than the indemnities for the 2001 crop.

We are budgeting for slightly lower participation in 2004 based on our latest estimates of planted acreage and expected market prices for the major agricultural crops.

The 2004 budget requests an appropriation of such sums as necessary for the mandatory costs associated with the program, and this will provide resources to meet program expenses at whatever level of coverage the producers choose to elect.

For salaries and expenses of the Risk Management Agency, $78 million in discretionary spending is proposed, and that is an increase of $7.8 million over the previous year.

In addition, we have proposed nearly $9 million for information technology needs under the common computing environment. RMA's information technology is aging. The last major overhaul occurred more than 10 years ago, and this funding request under the common computing environment will provide for the needed improvements to RMA's existing information technology, and it will enable coordination and data sharing with the Farm Service Agency, a goal that all of us have long sought to achieve.

FOREIGN AGRICULTURAL SERVICE

Let me finally turn very quickly to the Foreign Agricultural Service and the international activities of the Department. The importance of expanding international market opportunities for America's farmers and ranchers simply can't be overstated, so expanding market access is among our highest priorities for agriculture. We continue to pursue trade expansion efforts, as I noted. We are doing this on several fronts, negotiation of new trade agreements at the international level, the regional level, and the bilateral level, and the plan is that these will reduce barriers and expand access to critically needed overseas markets.

Our trade policy activities, however, are not limited to only negotiating new agreements. We have stepped up our efforts to monitor compliance with existing agreements and then to ensure that our trade rights are protected. This past year, we worked hard to resolve important issues such as China's restriction on soybean imports, implementation of its WTO accession commitments. We worked on Russia's ban on U.S. poultry. And we have continuing difficulties with Mexico and the implementation of NAFTA, which continues to take a lot of our time.

The Foreign Agricultural Service is the lead agency in the Department's international activities, and it leads our efforts to expand and preserve overseas markets. And I am pleased to say that this month marks the 50th anniversary of the Foreign Agricultural Service, a very important milestone for that agency and for USDA.

The budget provides total appropriated funding for FAS of $145 million for 2004 and supports a number of important trade-related initiatives. We are proposing 20 additional staff years for our involvement in the trade negotiations and to bolster the rapidly growing market access constraints that are related to sanitary and phytosanitary provisions and to biotechnology.

Finally, the 2004 budget requests additional funds for FAS for non-discretionary administrative requirements including pay cost increases, inflation, and higher payments to the U.S. Department of State for administrative services that they provide to us at overseas posts.

Now, the United States also continues its commitment to alleviating hunger and improving food security in developing countries through the provision of food assistance. The proposed budget includes a total program level for U.S. foreign food assistance of nearly $1.6 billion. This includes $1.3 billion for Public Law 480 Title I credit programs and Title II donations. And the budget also requests $50 million of appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program. This is a new program that was included in the Farm Bill, and we hope to soon have those regulations in final form and to begin operation of that program.

PREPARED STATEMENTS

Mr. Chairman, let me close by saying that this is a very modest but positive budget proposal. It provides the needed resources for the Farm and Foreign Agricultural Services mission area to continue the important work on behalf of all of our farmers and ranchers, and it supports some important investments to ensure that, as we look ahead, we can continue to provide those benefits in an effective and efficient manner.

Thank you very much. That concludes my statement. Again, it is a pleasure to be with you today.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the 2004 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). Accompanying me this morning are the Administrators of the three agencies within our mission area: James Little, Administrator of the Farm Service Agency; Ross Davidson, Jr., Administrator of the Risk Management Agency; and Ellen Terpstra, Administrator of the Foreign Agricultural Service. We also have with us Kirk Miller, the Department's General Sales Manager, and Dennis Kaplan from the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2004 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to any questions you may have.

Mr. Chairman, last February, Secretary Veneman released a new strategic plan that provides the framework for achieving the Department's policy and program objectives. One of the five primary goals established in the plan is to "enhance economic opportunities for American agricultural producers". The programs and services of the FFAS mission area are at the heart of the Department's efforts to respond to the challenges of the 21st century and enhance economic opportunities. Through the wide range of services provided by our agencies—price and income supports, farm credit assistance, risk management tools, conservation assistance, and trade expansion and export promotion programs—we provide the foundation for ensuring the future economic health and vitality of American agriculture.

This past year, the FFAS agencies and programs were challenged by a number of significant developments to which they responded effectively. In May, the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) was enacted, and we undertook the massive task of ensuring timely and efficient implementation of this far-reaching and complex legislation. Sections of the United States experienced drought this past summer, and our risk management resources were taxed to meet the most pressing needs of drought-stressed producers. Now, we are undertaking the task of implementing the supplemental emergency disaster assistance provisions of the 2003 omnibus appropriations act. At the same time, the workload associated with our trade negotiation and enforcement responsibilities has continued to grow, and 2003 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas.

The 2004 budget proposals we are discussing today fully support continuation of these activities and ensure our continued efforts on behalf of America's agricultural producers. In particular, the budget supports the implementation of the domestic commodity and income support, conservation, trade, and related programs provided by the new Farm Bill. It fully funds our risk management and crop insurance activities. It supports the Administration's export expansion goals by providing a program level of $6 billion for the Department's international activities and programs. Also, it provides for the continued delivery of a large and complex set of farm and related assistance programs, while improving management and the delivery of those programs.

FARM SERVICE AGENCY

The Farm Service Agency (FSA) is our frontline agency for delivering farm assistance and is the agency the majority of farmers and ranchers interact with most frequently. Producers come to FSA to participate in farm programs, including programs involving direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and conservation programs such as the Conservation Reserve Program (CRP). Because FSA plays a lead role in implementing provisions of the new Farm Bill, the budget places a priority on enhancing the ability of FSA to provide better service to our producers more efficiently.

Farm Program Delivery

The new Farm Bill signed in May 2002 required immediate action by FSA to formulate and put into effect a new set of programs for the 2002 crops. With about 2.1 million farms eligible for the complex, new Direct and Counter-cyclical Payments Program, FSA faced major implementation challenges. Producers had until April 1, 2003, to contact their local FSA offices and update bases and yields, and have until June 2nd to finalize their contracts. Approximately 4 percent of our producers were required to schedule appointments after the April 1st deadline to select their base and yield option because of the heavy workload in some of our busier offices. Those late appointments will be concluded by tomorrow, May 16th, at which time we are confident that everyone who wanted to update their bases and yields will have been provided the opportunity to do so. Approximately $4.3 billion in direct and countercyclical payments had been paid out as of April 25th, and payments have risen rapidly as signup has progressed. In addition, over $1.3 billion in Milk Income Loss Contract payments have been made to date to dairy producers, and about $1.2 billion in Peanut Quota Buyout payments have been made along with Apple Market Loss Assistance and other payments issued this fiscal year.

Along with implementation of the provisions of the new farm bill, FSA continues to meet the challenges of simultaneously implementing provisions of the recently passed $3.1 billion Disaster Assistance package. In fact, FSA is currently making payments to producers signed up for the reauthorized Livestock Compensation Program; approximately $15 million in refunds under the Conservation Reserve Program Refund Program; and $10 million in grants to Texas farmers for water losses in the Rio Grande Valley. Sign-up for the $50 million Cottonseed Program began 2 weeks ago, with payments scheduled to begin at the end of June and, within a few days, FSA will begin disbursing payments for the $55 million Tobacco Payment Program. On June 6th we will begin accepting applications for the $2.15 billion

Crop Disaster Program and begin making payments by the end of June. We are also expediting $60 million in payments to sugarcane producers suffering from devastating hurricane losses, $1.7 million in assistance to New Mexico producers who incurred losses from pesticide applications, and $60 million in payments to sugar beet producers. A disaster assistance website with frequently asked questions and answers as well as input from farmers, ranchers, and industry organizations have ensured that the programs are implemented clearly and effectively.

The magnitude and complexity of the programs being implemented will continue to reinforce the need to improve customer service efficiency in FSA and the other county-based conservation and rural development agencies. FSA will continue to face a substantial workload through 2004, as new Farm Bill programs are implemented. As the initial work associated with commodity programs signup in 2003 moderates, the workload associated with supporting the expansion of the Farm Bill mandated conservation programs will rise in 2004 and beyond.

The proposed 2004 program level for FSA salaries and expenses of $1.3 billion will support a ceiling of about 5,900 Federal staff years and 10,800 non-Federal county staff years. The proposed level for 2004 will maintain permanent non-Federal county staffing at prior year levels, while reducing the number of temporary non-Federal staff, which had been increased in 2003 and earlier years to support supplemental assistance programs and to begin Farm Bill implementation in 2002 and 2003. The agricultural assistance title of the 2003 omnibus appropriations act provides $70 million for the administrative costs of implementing that title, as well as title I of the 2002 Farm Bill. Federal staff years for 2004 are near prior year levels except for an increase of 56 staff years to support the Geospatial Information System (GIS) initiatives to improve services to producers and enhance efficiency.

The Administration places high priority on management initiatives and investments in technology to deliver improved, more efficient services to rural customers by continuing to streamline and modernize the field offices and Service Centers. Although we have established a high number of consolidated Service Centers and have made major strides in replacing separate-agency, aging information technology systems with the Common Computing Environment and re-engineered business processes, additional steps are needed to realize the full benefits.

A key component in these efforts is the continued initiative to put the GIS in place to replace normal hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and the Service Center agencies to electronically share and process vital information on farm records, soils, and aerial photography in ways that can dramatically improve efficiency. The President's budget proposes $42 million in appropriated funds under the Office of the Chief Information Officer for FSA's component of the Common Computing Environment to support GIS and related FSA investments.

FSA also will work on modernizing its farm credit program servicing activities, and we will review Service Center office processes and structure to explore additional ways to provide services at lower cost.

Commodity Credit Corporation

Disaster and commodity price and income support programs administered by FSA are financed through the Commodity Credit Corporation (CCC). CCC also is the source of funding for a number of conservation programs administered by USDA, and it funds many of the export programs administered by the Foreign Agricultural Service. CCC borrows funds directly from the Treasury to finance those programs.

Changes over the last decade in commodity, disaster, and conservation programs have dramatically changed the level, mission, and variability of CCC outlays. CCC net outlays have declined from a record of $32 billion in 2000 to $22.1 billion in 2001 and $15.7 billion in 2002.

CCC net outlays for 2004 are currently estimated at $15.4 billion, down approximately $3.8 billion from the revised 2003 estimated level of $19.2 billion. These estimates reflect the new Farm Bill and the supplemental emergency disaster assistance provided in the omnibus appropriations act for 2003.

Annual agriculture appropriations acts authorize CCC to replenish its borrowing authority as needed from the Treasury, up to the amount of realized losses at the end of the preceding fiscal year. This authority provides CCC with the flexibility to request funds as needed from the Treasury, up to the actual losses recorded for the most recent year. For 2002 losses, CCC was reimbursed $17.7 billion.

Conservation Programs

Conservation program outlays will account for over 10 percent of CCC expenditures in 2003. The Farm Bill authorized direct CCC funding for the CRP administered by FSA and dramatically increased funding for several conservation programs administered by NRCS. Funds for several conservation programs are transferred to NRCS and presented in the budget estimates for that agency.

CRP protects millions of acres of topsoil from erosion and is designed to improve the Nation's natural resources base. Participants voluntarily remove environmentally sensitive land from agricultural production by entering into long-term contracts for 10 to 15 years. In exchange, participants receive annual rental payments and a payment of up to 50 percent of the cost of establishing conservation practices.

The 2002 Farm Bill authorized USDA to increase CRP enrollment to 39.2 million acres in fiscal year 2006 through general signups, a continuous signup, the Conservation Reserve Enhancement Program (CREP), and the Farmable Wetlands Program (FWP). Since May 5, FSA has been accepting applications for a Conservation Reserve Program (CRP) general signup. Current participants with contracts expiring this fall, accounting for about 1.5 million acres, can make new contract offers. Contracts awarded under the new general signup will become effective at either the beginning of fiscal year 2004 or the following fiscal year, whichever the producer chooses.

The Farm Service Agency will evaluate and rank eligible CRP offers using the Environmental Benefits Index (EBI) for environmental benefits to be gained from enrolling the land in CRP. Decisions on the EBI cutoff will be made after the general signup ends in late May and EBI numbers of all offers have been analyzed. Those who would have met previous sign-up EBI thresholds are not guaranteed a contract under the current signup.

Aside from the general signup, the CRP continuous signup program is ongoing. USDA has reserved two million acres for the continuous program, which represents the most environmentally desirable and sensitive land. USDA is making a special effort to help enhance wildlife habitats and air quality by setting aside 500,000 acres for bottomland hardwood tree planting. Continuous signup for hardwood planting will begin after the general signup is complete.

The President's budget does not request additional appropriated funding for the Emergency Conservation Program for 2004 because it is impossible to predict natural disasters in advance and, therefore, difficult to forecast an appropriate level of funding.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2004, 70 percent of direct farm ownership loans are reserved for beginning farmers and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers.

The 2004 budget includes funding for about $850 million in direct loans and $2.7 billion in guarantees. In prior years, the Department shifted funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2004 reflect those shifts and are expected to reflect actual program demand more accurately. The overall reduction is due primarily to higher subsidy rates for the direct loan programs, which make those programs more expensive to operate than guarantees. However, we believe the proposed loan levels will be sufficient to meet the demand in 2004.

The 2004 budget maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication program, the budget requests $60 million, a reduction of $40 million from 2003. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2004. For emergency disaster loans, carryover funding from 2003 is expected to provide sufficient credit in 2004 to producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It reflects the principles of this Administration contained in the Food and Agricultural Policy report by providing risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2002, the crop insurance program provided about $37 billion in protection on over 215 million acres, which is about 4 million acres more than were insured in

2001. Our current projection is that indemnity payments to producers on their 2002 crops will exceed $4 billion, which is about $1 billion more than was incurred on 2001 crops.

The crop insurance program has seen a significant shift in business over the past several years—producers have chosen to buy-up to higher levels of coverage as a result of increased premium subsidies provided in the Agricultural Risk Protection Act of 2000 (ARPA). The number of policies, acres, liability, and premium all increased more than 40 percent for coverage levels 70 percent and higher.

Our current projection for 2004 shows a modest decrease in participation. This projection is based on USDA's latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2002.

The 2004 budget includes a legislative proposal to reduce the percentage of administrative expense reimbursements from 24.5 percent to 20 percent of premium. This proposal is estimated to save taxpayers about $68 million in 2004. A 1997 study of the crop insurance program by the General Accounting Office (GAO) indicated that higher premiums had resulted in substantially higher reimbursements to the companies for delivering essentially the same number of policies. In 1998, Congress responded to that report by imposing the current cap of 24.5 percent on reimbursements. Since that time, Congress has enacted a number of reforms to crop insurance designed to encourage participation at higher levels of coverage. Although the number of policies sold has remained virtually unchanged, total premiums in 2002 are more than 50 percent higher than in 1998, and reimbursements have increased by about $229 million over that time.

Savings in reimbursements to the companies are achievable. About 95 percent of the policies sold annually are renewals, which require less work to maintain and service than do policies sold for the first time. Further, in 2000, Congress passed the Freedom to e-File Act, which mandated that Federal Agencies provide access to all forms and other program information via the internet and provide for the electronic filing of all required program paperwork. Today, the vision Congress expressed through that mandate is a reality for agricultural producers participating in the Federal crop insurance program who are doing most of the paperwork on their own.

The 2004 budget requests an appropriation of "such sums as necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. The current projection for the 2004 budget year is that $3.3 billion will be needed for that purpose.

For salaries and expenses of the Risk Management Agency (RMA), $78.5 million in discretionary spending is proposed, an increase of about $8 million above 2003. This net increase includes additional funding mainly for information technology, maintenance costs, increased monitoring of the insurance companies, and pay costs.

At this time I would like to return to the budget request for the common computing environment (CCE). This budget includes about $8.7 million for information technology needs of RMA under the CCE. This amount is in addition to any funding requested within the salaries and expenses of RMA. Historically, funding under the CCE has been reserved for the Service Center agencies. However, in the ARPA legislation passed in 2000, Congress mandated a new role for FSA to assist RMA with program compliance and integrity in the crop insurance program. That mandate has required a greater level of coordination and data sharing between these two agencies. The best way to ensure the level of coordination required is to provide funding under the controls of the CCE.

RMA's information technology system is aging; the last major overhaul occurred about 10 years ago. Since that time, the crop insurance program has expanded tremendously. Catastrophic coverage and revenue insurance products have been initiated and coverage for new commodities has been added, including many specialty crops and more recently livestock. In short, RMA's information technology system has not kept pace with the changes in the program. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and with FSA. The funding will also provide for the development of a new information technology architecture to support the way RMA will need to do business in the future with strong consideration to shared resources under the CCE.

FOREIGN AGRICULTURAL SERVICE

The importance of international markets for America's farmers and ranchers cannot be overstated and, thus, improving market access and expanding trade are among our highest priorities for American agriculture. Expanding international market opportunities is one of the key objectives set forth in the Department's new strategic plan.

We continue to pursue our trade expansion efforts on many fronts. At the center of these efforts is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We expect 2003 will be a crucial year for these efforts. At the World Trade Organization (WTO) multilateral negotiations, where U.S. remains committed to an ambitious outcome, we are entering a critical phase. Having missed the March 31st the deadline for reaching agreement on the modalities—or formula—for reducing protection and trade-distorting subsidies, we need to step up our efforts to press for real and effective trade reform. The next critical milestone will be the September Ministerial in Cancun. Our trading partners, particularly the European Union and Japan, must show flexibility and demonstrate their commitment to reform in order for the Ministerial to give the negotiations the direction and impetus to conclude next year.

We also are engaged in a number of regional and bilateral negotiations to establish free trade agreements. Negotiations to establish a Free Trade Area of the Americas (FTAA) are entering an important phase. In February, countries tabled specific offers to reduce trade barriers in key areas, including agriculture. The United States will host the next FTAA Ministerial in November, and we will be working diligently to move the negotiations along. Our goal is to provide greater trade opportunities in this market of 800 million consumers with an annual Gross Domestic Product of $13 trillion. At the same time, we will be engaged in negotiations this year with Central American countries, the Southern African Customs Union, Australia, and Morocco to reach free trade agreements that will improve trade opportunities for American farmers and ranchers.

Our trade policy activities are not limited to negotiating new agreements however. As new agreements have been implemented, we have stepped up our efforts to monitor compliance and ensure that U.S. trade rights are protected. These efforts are essential as the Department continues to work diligently to resolve a number of trade problems, such as China's implementation of its WTO accession commitments on tariff-rate quota administration and export subsidy obligations; Russia's quotas on meat and poultry imports; and Mexico's continuing implementation of provisions of the North American Free Trade Agreement.

As traditional trade barriers fall, we find a rise in technical barriers to trade including resistance to adoption of new technologies, such as biotechnology, and increased use of sanitary and phytosanitary measures. It is fundamental to our maintaining market access to encourage the adoption by our trading partners of science-based regulatory systems. In this regard, it has become increasingly important to improve these countries' capacity to trade so that they can take part in negotiations, implement agreements, and connect trade liberalization to a program for economic reform and growth. This work is important because it helps to engage developing countries in the development and implementation of trading rules and guidelines and, thereby, helps to ensure the success of the trade negotiating process and the fair implementation of its results.

Another major focus of activity this year is implementation of the new Trade Adjustment Assistance for Farmers program that was authorized in the Trade Act of 2002. Under the new $90 million program, USDA is authorized to make payments to eligible producers when commodity prices have been affected by imports. Benefits may be provided when the current year's price of an agricultural commodity is less that 80 percent of the national average price during a preceding 5-year period and the Secretary determines that imports have contributed importantly to the price decline. This has proven a very complex program to put in place; its administration will involve at least 5 agencies of the Department. These agencies have worked diligently to design and establish the program. Proposed regulations for the program were published on April 23rd, and we are working to have final regulations in place and to begin accepting petitions for assistance this summer.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) serves as the lead agency in the Department's international activities and plays a critical role in our efforts to expand and preserve overseas markets. In March, we observed the 50th anniversary of FAS, an important milestone for the agency and for the Department.

Much has changed during the past 50 years, not the least of which is the importance of international markets for U.S. farmers and ranchers and the FAS programs that support our agricultural community to take advantage of those opportunities. U.S. agricultural exports were $2.8 billion during 1953, while imports were higher at $4.3 billion. By fiscal year 2002, exports had grown to just over $53 billion and imports to $41 billion.

This morning, our more immediate concern is ensuring that FAS has the necessary resources and staffing to continue their important work as we face new trade challenges together with the U.S. agricultural community. The budget provides total appropriated funding for FAS of $145.2 million for 2004, and supports a number of important trade-related initiatives.

First, an additional 20 staff years are provided to FAS to facilitate the agency's active involvement in ongoing multilateral, regional, and bilateral trade negotiations and to bolster its efforts to address rapidly growing market access constraints related to biotechnology, and sanitary and phytosanitary measures. These will be funded from a centralized fund to be established in the Office of the Secretary to support cross-cutting USDA trade-related and biotechnology activities.

Funding also is provided to FAS for a trade capacity building initiative to support a number of critical activities supporting our trade policy agenda. This includes assistance to countries to implement the Cartagena Protocol on Biosafety. If countries misinterpret the Protocol, it can seriously impede international trade, product development, technology transfer, and scientific research. FAS will work with developing countries so that science-based, transparent, and non-discriminatory standards are adopted and, by doing so, will help to avoid potential disruptions to trade or other problems.

Funding is also provided for a USDA contribution to the Montreal Protocol Multilateral Fund. The Fund was established in 1991 to help developing countries switch from ozone depleting substances to safer alternatives. The USDA contribution will supplement contributions by the Department of State and Environmental Protection Agency to the Fund and will further U.S. agricultural interests in the implementation of the Protocol.

Finally, the 2004 budget requests additional funds for FAS for a number of non-discretionary administrative requirements, including pay cost increases, inflation, and higher payments to the Department of State for administrative services provided at overseas posts.

Export Promotion and Market Development Programs

FAS administers the Department's major export promotion and market development programs that are key components in our efforts to expand exports. The 2002 Farm Bill provided increased funding for a number of these programs in order to bolster our trade expansion efforts on behalf of U.S. agriculture, and the President's 2004 budget proposals fully reflect those increases.

For the market development programs, including the Market Access Program and the Foreign Market Development Cooperator Program, the budget provides $164 million, an increase of $15 million above 2003. Included in this amount is $2 million for the Technical Assistance for Specialty Crops program that was authorized in the Farm Bill. Under the program, grants are provided to assist U.S. organizations in activities designed to overcome phytosanitary and related technical barriers that prohibit the export of U.S. specialty crops. FAS worked very hard in getting that program up and running so that 2002 programming could be implemented by the end of last year. Final regulations for the program are currently under development and are expected to be published in the near future, which will allow 2003 programming to move forward.

For the CCC export credit guarantees, the largest of our export programs, the budget includes a program level of $4.2 billion. We experienced strong growth in the supplier credit guarantee program during 2002, with sales registrations once again doubling the previous year's level.

The budget also includes projected program levels of $57 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program (EEP).

International Food Assistance

The United States continues its commitment to alleviating hunger and improving food security in developing countries through the provision of food assistance. The budget includes a total program level for U.S. foreign food assistance of nearly $1.6 billion. This includes $1.3 billion for Public Law 480 Title I credit and Title II donations, which is expected to support the export of 3.1 million metric tons of commodity assistance. The Farm Bill increased the annual minimum tonnage for Title

II donations to 2.5 million metric tons and, based on current price projections, the budget provides sufficient funding to meet that requirement.

The budget also provides $50 million of appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program. As the Committee will recall, the Farm Bill authorized this new program, which succeeds the Global Food for Education Initiative pilot program that the Department carried our during 2001 and 2002. For 2003, the program will be funded through the CCC but, beginning in 2004, is to be funded through annual appropriations. FAS published proposed regulations for the program on March 26th, and the public comment period ended on April 25th. Once the final rule is published, FAS will request proposals from private voluntary organizations, the World Food Program, and other groups to begin implementation of the program.

The budget also includes a program level of $151 million for the CCC-funded Food for Progress programs during 2004. The Farm Bill authorized an increase in transportation and other non-commodity costs in order to support the minimum annual program level of 400,000 metric tons for Food for Progress activities established in the Bill. Finally, the budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The value of the assistance and associated costs are projected to total $118 million.

This concludes my statement, Mr. Chairman. I would be pleased to answer any questions you or other Members of the Committee may have.

PREPARED STATEMENT OF JAMES R. LITTLE, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present the fiscal year 2004 budget for the Farm Service Agency (FSA). This budget supports the FSA programs that will ensure a strong, viable U.S. agriculture market. Before addressing the details of the budget, I would like to comment on some of the initiatives that FSA has undertaken over the last year.

Farm Bill Implementation

Since before the Farm Security and Rural Investment Act of 2003 was signed on May 13, 2002, FSA employees in headquarters and across the Nation have dedicated themselves to its effective and timely implementation.

Producers had until April 1, 2003, to contact their local FSA offices and update bases and yields and until June 2nd to finalize their contracts. Approximately 4 percent of our producers were required to schedule appointments after the April 1st deadline because of the heavy workload in some of our busier offices. Those late appointments should be completed by tomorrow, May 16th, at which time we are confident that everyone who wanted to update their bases and yields would have been provided the opportunity to do so. As of April 25th, FSA has issued approximately $4.3 billion in direct and counter-cyclical payments (DCP)—over $3 billion in direct payments and over $1 billion in counter-cyclical payments to date, and payments have risen rapidly as signup has progressed. We have worked diligently to ensure that producers have the information they need to make informed decisions about program participation. While the DCP Program has been a major focus, we have also provided a steady stream of information on other Farm Bill provisions including: the Milk Income Loss Contract program, the Peanut Quota Buyout program, new loan rates, the addition of pulse crops, and other issues important to the agriculture community. As of April 25th, over $1.3 billion in Milk Income Loss Contract payments have been made to dairy producers. About $1.2 billion in Peanut Quota Buyout payments have also been made along with the Apple Market Loss Assistance and other payments issued this fiscal year.

At the same time, we have worked internally to develop extensive training sessions and materials to ensure that county office employees on the front line of program delivery have the information needed to perform their jobs. Recognizing that the effectiveness and efficiency of Farm Bill implementation hinges on high quality and timely information, FSA worked with State extension services and the Farm Foundation to undertake an extensive training initiative. In August and September of 2002, four regional train-the-trainer meetings were conducted to provide representatives of State extension services, Native American councils and tribal organizations, 1862 and 1890 universities, farm organizations, farm consulting firms, farm management organizations, farm lenders, and agribusiness leaders with Farm Bill information. Attendees were able to use materials provided at the sessions to replicate the training within their own organizations and train an additional 1,000 trainers. This process allowed local training for various target audiences of farmers and ranchers across the Nation. In addition, attendance by the press helped ensure that early and accurate Farm Bill information was disseminated through the media. The partnership between Federal, State, and private organizations was key in alerting producers of the importance of making informed management decisions regarding the new legislation.

FSA employees at every organizational level have succeeded in implementing extensive new programs and program changes in record time. The implementation challenge was complicated by the need to partially rely on old technology systems. We are in the process of transitioning to new systems under the Common Computing Environment and look forward to the benefits of the improvements, once the transition is complete.

Technology has proven to be an invaluable tool. We have supplemented our FSA website to provide Farm Bill information and program details, updated enrollment data, and frequently asked questions. The website offers online program forms to allow producers to e-file applications in compliance with the Government Paperwork Elimination Act. We also provided web-based calculation tools such as the base and yield update analyzer developed in collaboration with Texas A&M University.

As we continue to administer the Farm Bill programs, we are committed to utilizing technology and process improvements to further enhance performance and deliver the quality of service that America's producers and taxpayers have the right to expect.

Agricultural Assistance Act Implementation

Along with implementation of the new farm bill, FSA continues to meet the challenges of simultaneously implementing provisions of the recently passed $3.1 billion Agricultural Assistance Act of 2003. In fact, FSA is currently making payments to producers signed up for the reauthorized Livestock Compensation Program; approximately $15 million in refunds under the Conservation Reserve Program Refund Program; and $10 million in grants to Texas farmers for water losses along the Rio Grande River. Signup for the $50 million Cottonseed Program began 2 weeks ago, with payments scheduled to begin at the end of June, and FSA will begin disbursing payments for the $55 million Tobacco Payment Program within a few days. On June 6th, we will begin accepting applications for the $2.15 billion Crop Disaster Program and begin making payments by the end of June. We are also expediting $60 million in payments to sugarcane producers suffering from devastating hurricane losses, $1.7 million in assistance to New Mexico producers who incurred losses from pesticide application, and $60 million payments to sugar beet producers.

Civil Rights

To ensure every customer is treated with dignity and respect, FSA has developed a civil rights action plan to address issues of unequal access and disparate treatment in the past. The plan ensures that preventive measures, such as oversight of loan servicing and outreach at the State level, are in place. We are investigating reports of disparate treatment in certain locales, taking corrective action where appropriate. Our actions ensure that FSA employees at every level, in every part of the country, offer superior customer service.

Program Outreach

FSA's civil rights effort works in tandem with our ongoing program outreach initiative. For fiscal year 2003, we initiated 16 projects to reach out to various underserved populations across the country. Nine of these projects are underway, and six are in the planning stages. One of the projects is an expansion of the existing American Indian Credit Outreach Initiative, which originated as a pilot project in Montana and has achieved resounding success. The project was expanded to 10 States in fiscal year 2002, and we are expanding to 31 States in 2003.

Warehouse Act Implementation

FSA has also been engaged in implementing revisions in the law pertaining to federally licensed warehouse operators under the Grain Standards and Warehouse Improvement Act of 2000. USDA has defined the issue of Federal preemption as the exclusive jurisdiction of the Department over a Federally licensed warehouse for activities related to the merchandising and storage of grain. We have developed an action plan that improves warehouse regulations and better protects the interests of producers and other depositors. One measure we are proposing is to upgrade the net worth and financial reporting requirements for obtaining a Federal warehouse license. Revised licensing agreements for commodities other than grains will be available for review by warehouse operators early this summer, prior to the start of the 2003 harvest. Licensing agreements for grain elevators have been postponed in accordance with the moratorium under Section 770 of the 2003 Consolidated Appropriations Resolution.

Management Initiatives

FSA is an active participant in USDA's management achievements, many of which fall within the scope of the President's Management Agenda. I would like to highlight a few of our success stories.

Improving Financial Performance.—FSA has demonstrated its commitment to improving financial performance and accountability by achieving a clean audit opinion for the fiscal year 2002 financial statements. A clean audit opinion assures the public that the financial data is reliable, accurate, and complete, and it enables users to make informed decisions and manage resources more wisely. The achievement of a clean audit opinion contributed toward the clean audit opinion for USDA as well. We have also made progress in fully complying with the Debt Collection Improvement Act of 1996.

Expanded Electronic Government.—In partnership with other Service Center agencies, FSA met the requirements of the Freedom to E-File Act in 2002 by posting over 300 electronic forms for producer access through our common e-Forms service site located at the following address: http://forms.sc.egov.usda.gov.

Farm Credit Program Loan Servicing.—FSA is working with the Department to identify and implement improvements to modernize loan servicing, including mailings, billings, collections, and correspondence.

BUDGET REQUESTS

The following highlights our proposals for the 2004 budget for commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, cotton (upland and extra long staple), rice, tobacco, milk and milk products, honey, peanuts, pulse crops, sugar, wool and mohair are primarily facilitated through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2003, $1.5 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program (CRP) administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. CCC also funds many of the export programs administered by the Foreign Agricultural Service. When called upon, CCC finances various disaster assistance programs authorized by Congress.

Program Outlays

The 2004 budget estimates largely reflect supply and demand assumptions for the 2003 crop, based on November 2002 data. CCC net expenditures for fiscal year 2004 are estimated at $15.4 billion, down about $3.8 billion from $19.2 billion in fiscal year 2003.

The nearly $3.8 billion net decrease in projected expenditures is attributable to reduced outlays for disaster assistance programs and several programs such as Milk Income Loss Contract payments, Peanut Quota Buyout payments, and net marketing assistance loan outlays, which more than offset increased outlays for direct and counter-cyclical payments.

Reimbursement for Realized Losses

Annual appropriations acts authorize CCC to replenish its borrowing authority, as needed, from Treasury, up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2002 losses, CCC was reimbursed $17.7 billion.

Conservation Reserve Program

FSA's Conservation Reserve Program (CRP) is currently USDA's largest conservation/environmental program. It is designed to cost-effectively assist farm owners and operators in improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to install approved conservation practices. The 2002 Farm Bill increased the enrollment ceiling under this program from 36.4 million acres to 39.2 million acres.

The fiscal year 2004 budget reflects funding for general signups in fiscal years 2003 and 2004, for approximately 2.8 million acres and 1.8 million acres, respectively; 600,000 continuous signup and Conservation Reserve Enhancement Program acres and 100,000 Farmable Wetlands Program acres. Since May 5, FSA has been accepting applications for CRP. In addition to the general signup, CRP's continuous signup program will be ongoing. In total, two million acres are reserved for the continuous signup program, which provides for enrollment of the most environmentally desirable and sensitive land. Included in the two million acre reserve is 500,000 acres for bottomland hardwood tree planting to enhance wildlife habitats and air quality. Continuous signup for hardwood planting will start after the general signup is complete.

Current participants with contracts expiring September 30, 2003, account for about 1.5 million acres. These participants can make new contract offers during the general signup, with an effective date of October 1, 2004 if they are accepted. All other contracts awarded under this signup will become effective either at the beginning of next fiscal year, October 1, 2003, or the following year, October 1, 2004, whichever the producer chooses.

The Farm Service Agency will evaluate and rank eligible CRP offers using the Environmental Benefits Index (EBI). Decisions on the EBI rankings and cutoff criteria will be made after signup ends and after analyzing EBI rankings of all offers. Those who may have met previous signup EBI thresholds are not guaranteed a contract under this signup, as USDA is committed to enrolling acreage which will provide the greatest environmental benefit.

Overall, CRP enrollment is assumed to gradually increase from 34 million acres at the end of fiscal year 2002 to 39.2 million acres by fiscal year 2006, while maintaining a reserve sufficient to provide for a total program enrollment of 4.2 million acres in continuous signup and CREP. To date, approximately 2.2 million acres are already enrolled through continuous signup and CREP. In May 2000, new continuous signup and CREP participants became eligible for additional financial incentives designed to boost participation. USDA has allocated $147 million for these one-time, up-front incentive payments in each of fiscal years 2003 through 2006. Actual incentive payments for fiscal year 2002 were approximately $115 million.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2004 Budget proposes a total program level of about $3.5 billion. Of this total, $2.7 billion is requested for guaranteed loans, which are offered in cooperation with private lenders. To align more closely with actual program demand, the fiscal year 2004 Budget allocates a larger share to the direct loan programs than the 2003 request. In 2001 and 2002, FSA transferred guaranteed loan funding to the direct loan programs as provided by law, and we are preparing for a similar transfer in 2003. By increasing the proportion of direct loan funding up front, as proposed, we will avert delays that might occur through an inter-program transfer of funds.

For direct farm ownership loans, we are requesting a loan level of $140 million. The proposed program level would allow FSA to extend credit to about 1,200 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Seventy percent of direct farm ownership loans are reserved for beginning farmers, and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. For direct farm operating loans, we are requesting a program level of $650 million to provide nearly 14,000 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2004, we are requesting a loan level of $1 billion, which will provide approximately 3,500 farmers the opportunity to acquire their own farm or to preserve an existing one. Guaranteed farm ownership loans allow real estate equity to be used in restructuring short-term debt under more favorable long-term rates. For guaranteed farm operating loans, we propose an fiscal year 2004 program level of approximately $1.7 billion to assist about 10,000 producers finance their farming operations. This program enables private lenders to extend credit to farm customers who would not otherwise qualify for commercial loans. We are particularly proud of our guaranteed loan program, which is one of the most successful in the government system.

In addition, our budget proposes program levels of $2 million for Indian tribal land acquisition loans and $60 million for boll weevil eradication loans. For emergency disaster loans, carryover funding from 2003 is expected to provide sufficient credit to producers whose farming operations have been damaged by natural disasters.

OTHER APPROPRIATED PROGRAMS

State Mediation Grants

State Mediation Grants assist States in developing programs that deal with disputes involving distressed farm loans, wetland determinations, conservation compliance, pesticides, and other agricultural issues. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers, primarily small farmers, in resolving disputes before they culminate in litigation or bankruptcy. States with certified mediation programs may request grants of up to 70 percent of the cost of operating their programs.

The fiscal year 2004 Budget requests $4 million for 28 to 32 grants to States. The $3.9 million available for fiscal year 2003 has provided grants to 29 States.

Emergency Conservation Program

It is impossible to predict natural disasters and, therefore, difficult to forecast an appropriate funding level for the Emergency Conservation Program (ECP). The President's Budget does not include a request for this program because a significant amount of supplemental funding provided in fiscal year 2002 for ECP remained available for carryover to operate the program in 2003 when the fiscal year 2004 budget was prepared. However, because of severe drought, floods, tornadoes, and other disasters, which have occurred already this fiscal year, as of April 22, over $22 million has been allocated in fiscal year 2003 to repair damage to agricultural lands and to provide water enhancement measures during the drought emergencies. We are currently reviewing our funds availability.

Dairy Indemnity Program

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through litigation or other sources. As of April 22, we had paid fiscal year 2003 DIP claims totaling $213,000 in nine States.

The fiscal year 2004 appropriation request of $100 thousand, together with unobligated carryover funds expected to be available at the end of fiscal year 2003, would cover a higher than normal, but not catastrophic, level of claims. DIP, which was extended through 2007 by the 2002 Farm Bill, is an important element in the financial safety net for dairy producers in the event of a serious contamination incident.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2004 Budget requests $1.3 billion from appropriated sources including credit reform transfers. The request assumes decreases in non-Federal county staff years and operating expenses, partially offset by increases in pay-related costs to sustain essential program delivery.

In total, the fiscal year 2004 Budget reflects a ceiling of 5,917 Federal staff years and 10,784 non-Federal staff years. The Agricultural Assistance Act of the 2003 Consolidated Appropriations Resolution provided $70 million to cover increased administrative costs needed to implement the disaster provisions as well as the commodity provisions of the 2002 Farm Bill. Temporary staffing and overtime will be used to meet this increased workload for the remainder of this fiscal year. As workload stabilizes in fiscal year 2004, temporary non-Federal staff years will be reduced from the fiscal year 2003 level, as is reflected in this request. Permanent non-Federal county staff years are expected to increase slightly to support the conservation provisions, where the workload is expected to remain at significant levels.

Federal staff years will increase by 56 to support the Geospatial Information Systems initiative, which will be funded by the Common Computing Environment account of the Office of the Chief Information Officer. This and other CCE initiatives will lead to more efficient and effective customer service and will help move FSA and the other Service Center agencies into the e-Government era, resulting in significant long-term savings and administrative improvements.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2004.

This year, as FAS celebrates its 50th anniversary as an agency, we have an opportunity to review our history and make sure we are prepared for tomorrow's challenges. In 1953, Secretary of Agriculture Ezra Taft Benson issued four challenges to the new agency:

—Supply American agriculture with current market information;
—Promote the sale of American farm products abroad;
—Remove obstacles to foreign trade; and
—Help other countries become better customers through technical assistance, foreign investment, greater use of credit and other means.

Through all the changes of the past 50 years—new nations, new technologies, new food and agricultural products, to name just a few—those activities remain the core of our agency's work. The work we do supports the Department's strategic objectives of expanding international market opportunities and supporting international economic development and trade capacity building.

The challenges the new FAS faced in 1953 are not unlike the challenges we face today—the excess productive capacity of U.S. agriculture, continued global agricultural policy reform, weather uncertainties and competition. At the same time, the U.S. export situation is incredibly different. During the 1950s, our agricultural trade balance was awash in red ink. In 1953, for example, U.S. agricultural imports were $4.3 billion and exports were $2.8 billion, leaving a trade deficit of $1.5 billion. In sharp contrast, for fiscal 2002, U.S. agricultural exports topped $53 billion and imports were $41 billion, producing a surplus of more than $12 billion.

In the early 1950s, six of our top 10 export markets were in Western Europe. Now half are in Asia and only two are in Europe. Also, Canada and Mexico, our partners in the North American Free Trade Agreement, ranked 1 and 3 in 2002. Together, they took 29 percent of our total agricultural exports, up from 11 percent in the early 1950s when Mexico was not even in the top 10.

Bulk commodities dominated the U.S. trade picture back then. The big three at the time—wheat, cotton and tobacco leaf—accounted for up to 60 percent of total U.S. agricultural export value. A USDA report at the time boasted that our soybean exports set a record in 1953—42 million bushels. We now export about a billion bushels a year. In the early 1950s, meats trailed animal fats in export volume and value, and horsemeat tonnage beat poultry meat. Like meats, fruits and vegetables show huge export gains over the past 50 years. In 1952 and 1953 combined, we exported 164 million pounds of fresh apples, compared with 2.9 billion pounds in 2000–2001.

Many factors contributed to these changes. The global marketplace has grown enormously—more people, more production, higher incomes and much, much more trade. World population increased from about 2.7 billion in 1953 to a projected 6.3 billion this year. Urban populations have more than tripled.

Rising incomes have expanded trade not only by generating demand for more food, but also by helping to alter diets, sharply boosting per capita global consumption and trade in meats, cereals, fruits and vegetables, and processed grocery products. At the same time, trade liberalization, changing market structures and new technologies in processing, storage and shipping created new opportunities and new markets.

American producers, processors and exporters took advantage of these growing opportunities by increasing their productivity, improving quality and variety, and intensifying marketing efforts. And through it all, government—including FAS—and the private sector developed a strong partnership, working together on market development and promotion programs, market-opening negotiations and new trade agreements, food and technical assistance, and research and quality improvements.

While we still face many challenges, we continue to believe that world markets offer rewarding growth opportunities and play a vital role in the future strength and prosperity of American agriculture.

FAS Program Activities

Throughout our 50 years, Congress has given us many tools to help us expand export opportunities for U.S. agricultural, fish, and forest products. Last year, we continued to use our long-standing export programs vigorously and have implemented new initiatives contained in the Farm Security and Rural Investment Act of 2002.

The 2002 Farm Bill established the Technical Assistance for Specialty Crops program and authorizes $2 million in Commodity Credit Corporation funds for each fiscal year from 2002 to 2007. We moved quickly to implement the program and allocated $2 million to 18 entities for fiscal year 2002 under this program, which is designed to address unique barriers that prohibit or threaten the export of U.S. specialty crops.

The Farm Bill also increased the Market Access Program to $100 million for 2002, and those funds were allocated to 65 trade organizations to promote their products overseas. The Farm Bill increased funds for the Foreign Market Development Program, and FAS approved marketing plans totaling $34.5 million for 24 trade organizations for fiscal year 2002.

The Emerging Markets Program is authorized at $10 million each year to promote increased market access for U.S. commodities and products in emerging markets. A total of 82 projects were approved for fiscal year 2002. The Quality Samples Program provides funds so U.S. organizations can provide commodity samples to foreign buyers to help educate them about the characteristics and qualities of U.S. agricultural products. FAS allocated $1.6 million in fiscal year 2002 to 21 organizations under this program.

The export credit guarantee programs facilitated sales of nearly $3.4 billion in U.S. agricultural products last year. The GSM–102 program helped U.S. exporters register sales of nearly $650 million in the South America region and over $395 million to Turkey, two areas where the program is most successful. U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued over $452 million in credit guarantees under this program in 2002, and we project continuing growth for this newer GSM program.

With the aid of the Dairy Export Incentive Program (DEIP), U.S. exporters sold more than 86,000 tons of dairy products in fiscal year 2002. The Commodity Credit Corporation awarded over $54 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America.

On the trade policy front, USDA works to open, expand, and maintain markets for U.S. agriculture. FAS was a key player in the development of the comprehensive U.S. agricultural negotiation proposal for the World Trade Organization (WTO) Doha Development Agenda. The proposal calls for significant new disciplines in the areas of market access, export competition, and domestic support.

We also have actively participated in other trade negotiations including the Free Trade Area of the Americas (FTAA) and the now completed Singapore and Chile Free Trade Agreements.

While pursuing these new negotiations, we have begun to see the benefits of earlier agreements. United States exports of forest products, rice, cotton, citrus, and wheat to Taiwan and China have increased by over $100 million as a result of their accessions to the WTO, and U.S. soybean meal and corn exports to Jordan have nearly doubled as a result of the U.S.-Jordan Free Trade Agreement.

FAS also worked to defend United States access to markets. Monitoring of trade agreements is essential to ensure that the benefits gained through long, hard negotiations are realized. Our monitoring of the Uruguay Round Agreement on Agriculture and the Sanitary and Phytosanitary Agreement ensured that nearly $1.8 billion in U.S. trade was protected or expanded. Examples include the monitoring of China and Taiwan's WTO accession commitments, Venezuela's import licensing for numerous commodities, and Costa Rica's rice import permits.

In addition, we worked to secure access for U.S. organic exports to Japan and Europe, averted the imposition of grain import restrictions by the European Union (EU), and helped open the Australian market to U.S. table grapes.

To support the U.S. commitment to global food aid efforts, we have used our assistance authorities to ship commodities from the United States to needy people around the world. FAS programmed more than 2.4 million metric tons of food assistance in fiscal year 2002 under Public Law (Public Law) 480, Title I and Section 416(b) of the Agricultural Act of 1949. These products, valued at $600 million, went to more than 60 countries.

Under the pilot Global Food for Education (GFE) Initiative, which began in fiscal year 2001, the United States has provided 800,000 tons of commodities and associated assistance valued at $300 million over a 2-year period to provide school meals for 7 million children in 38 countries.

Our emphasis on trade capacity building and our roles in international organizations continue to grow. International cooperation is the cornerstone for building bilateral and multilateral relationships that can facilitate resolution of trade differences, expand trade, and promote economic growth. For example, last year we used several international organization meetings to advance our WTO proposals. We began our efforts to communicate the important link between market access and global food security at the Food and Agriculture Organization's Conference in Rome in November, just prior to the successful launch of the Doha Development Round. We continued our efforts at the Finance for Development Conference in Monterrey in March, the World Food Summit: Five Years Later in Rome in June, the G–8 Summit in Kananaskis, Canada, 2 weeks later, and finally the World Summit on Sustainable Development in Johannesburg in August.

The meetings provided opportunities for outreach on our WTO proposal and biotechnology as key to addressing the problem of food security. Our efforts were carefully crafted to specific audiences. For example, at the World Food Summit: Five Years Later, Secretary Veneman identified three U.S. priorities for reducing hunger, with specific initiatives to boost agricultural productivity in the developing world, end famine, and alleviate severe vitamin and mineral deficiencies. She invited other countries to join us in these efforts. The Secretary announced a USDA-sponsored ministerial-level conference on agricultural science and technology designed to assist developing countries in increasing productivity. We sponsored a well-attended event on biotechnology that included Nobel Peace Prize winning scientist Dr. Norman Borlaug, bringing greater credibility to the scientific support behind the technology. Finally, the Secretary met with Latin American ministers of agriculture in their capacity as members of the Inter-American Institute for Cooperation on Agriculture. The result of that meeting was consensus among members on trade capacity building priorities for IICA, including sanitary and phytosanitary issues and biotechnology.

It is these relationships and the training we provide that will help us resolve trade disputes in the future, as well as prepare developing countries for global trade. Our longstanding training program, the Cochran Fellowship Program was used to introduce 972 Cochran Fellows from 78 countries to U.S. products and policies in 2002—the largest number of participants in the program's history. These Fellows met with U.S. agribusiness; attended trade shows, policy and food safety seminars; and received technical training related to market development. The Cochran Fellowship Program provides USDA with a unique opportunity to educate foreign government and private sector representatives not only about U.S. products, but also about U.S. regulations and policies on critical issues such as food safety and biotechnology.

We also collaborated with a diverse group of U.S. institutions in research partnerships with 53 countries. These research and exchange activities promoted the safe and appropriate development and application of products from biotechnology, as well as other areas such as food safety, improved nutritive value of crops, environmental sustainability, and pest and disease resistance of crops and livestock.

In the end, the technical assistance that we provide, both our own and through international organizations, will help build the institutions needed for developing countries to attract investment and grow their economies. If our efforts are successful, our food and agricultural producers will benefit by access to more and better markets.

Challenges Ahead

Faced with continued growth in our agricultural productivity, intense competition, and continued aggressive spending on market promotion by our competitors, we must redouble our efforts to improve the outlook for U.S. agricultural exports. I would like to discuss our top priorities for the year.

Continuing Trade Liberalization for Agriculture

At the top of our list is moving forward in the multilateral trade negotiations on agriculture under the WTO. The United States was the first WTO member to put forward a comprehensive and specific agriculture proposal, which has gained support from many WTO members. As the negotiations progress, it has become clear that two camps have developed: one that wants to address the inequities of the Uruguay Round consistent with the Doha mandate and one that does not. The EU and Japan are in the latter group. Both have indicated resistance to moving beyond the limited Uruguay Round framework.

We are at a critical stage in the WTO agriculture negotiations. We were disappointed, but not surprised that resistance to change and reform stymied agreement on the modalities for cuts in subsidies and tariffs by the March 31 deadline. The Chair of the agricultural negotiating group, Stuart Harbinson, is to be commended for his leadership in moving the process forward. However, his paper was not completely satisfactory to us. But it did highlight that a large number of countries, including the United States, are ready to advance significant reform, to cut subsidies and tariffs substantially.

Along with our comprehensive tariff reduction formula, the United States has proposed that WTO members engage in negotiations on a sector-specific basis on further reform commitments that go beyond the basic reductions that will apply to all products. These would include deeper tariff reductions, product-specific limits on trade-distorting domestic support, and other commitments to more effectively address the trade-distorting practices in the affected commodity sectors. This is an area where we need support and involvement from our food and agriculture industry, and we will be seeking their guidance throughout the negotiations.

So where do we go from here? We cannot lose our commitment to the Doha Development Agenda effort just because we encounter problems. WTO members need to keep working, exploring ways to bring parties together, to match interests so that we can move the process forward. As we work toward the Cancun Ministerial in September, we will continue to support the efforts of Chairman Harbinson to advance the negotiations.

Overall, the passage of Trade Promotion Authority (TPA) was great news for America's farmers, ranchers, and food industry. The United States can now move forward on its ambitious trade agenda of opening markets multilaterally in the WTO, regionally, and bilaterally. This Administration is pressing ahead in its effort to create the largest, most comprehensive free trade area encompassing 34 democracies in the Western Hemisphere—a Free Trade Area of the Americas (FTAA). Despite economic turmoil in Latin America, the negotiations remain on schedule.

In December, the United States, at the Free Trade Area of the Americas (FTAA) Ministerial in Quito, Ecuador, pushed negotiations forward to complete the FTAA by January 2005. The ministers energized market access negotiations and agreed that the United States and Brazil will co-chair the FTAA process through the conclusion of negotiations. The next meeting will be in Miami late this year, with another meeting set for Brazil in 2004.

When completed, the FTAA will provide U.S. producers and exporters with much greater access to 450 million consumers outside the NAFTA countries, who will have $2 trillion in income. USDA estimates suggest that the FTAA could expand U.S. agricultural exports to the hemisphere by more than $1.5 billion annually.

While we recognize that many challenges lie ahead and that the U.S. agricultural community has some concerns about the FTAA, we cannot afford to stand on the sidelines while other countries take away our potential markets. The reality is that if all Western Hemisphere countries have preferential agreements among themselves and the United States is not a party to these agreements, U.S. exports to the hemisphere would actually decline, perhaps as much as $300 million annually. So we must be a participant and a leader in these important negotiations.

In the year ahead, we will also be working on agreements with Australia, Morocco, five countries in Central America, and the Southern African Customs Union. As you see, we will be working on many fronts to continue to improve export opportunities for the American food and agriculture sector.

We also are actively participating in the Asia Pacific Economic Cooperation (APEC) forum. We expect APEC to serve a key role in promoting continued trade liberalization within the region and in the WTO, and we will be working through the APEC food system to realize this goal.

We will continue to work with the countries that would like to join the WTO, such as Russia and Saudi Arabia. Although increasing the number of members in the WTO is a high priority, we will continue to insist that these accessions be made on commercially viable terms that provide trade and investment opportunities for U.S. agriculture. And when membership in the WTO is achieved, we must continue to monitor aggressively those countries' compliance with their commitments. We must ensure that acceding countries implement trade policies and regulations that are fully consistent with WTO rules and obligations.

Building Trade Capacity

Hand-in-hand with our negotiating efforts are our efforts to help developing countries participate more fully in the trade arena. Our trade capacity building efforts are aimed at helping countries take part in negotiations, implement agreements, and connect trade liberalization to a program for reform and growth. We will work closely with the U.S. Trade Representative and the U.S. Agency for International Development in this effort.

If we are to achieve success in the negotiating process, we must engage the developing world in the creation and implementation of appropriate trading rules and guidelines. This will take time, but it will be worth the investment. These countries represent our future growth markets. Throughout the year, we will use all of our available tools—the Cochran Fellowship Program, the Emerging Markets Program, and our involvement in international organizations such as the Inter-American Institute for Cooperation on Agriculture (IICA)—to aid in this important effort.

Addressing Biotechnology Issues

Another priority is how we deal with the issues surrounding products produced through biotechnology. The increasing number of countries around the world that are issuing regulations relating to products of biotechnology present a particular challenge, both for our infrastructure and for our food and agricultural exports. We are using every available fora to ensure countries adopt science-based policies in this area.

For example, last year we participated in the first APEC policy dialogue on biotechnology, where the 21 APEC member countries reached a consensus that biotechnology is an important tool with great potential for food security and the environment. In an effort to foster closer cooperation, the North American Biotechnology Initiative identified science, marketing, and regulatory issues as priorities for the three NAFTA partners. The Philippines enacted well-crafted biotech commercialization guidelines after 3 years of sustained FAS interaction through educational events and Cochran Fellowship training programs. FAS worked closely with third countries and allies within the EU to counter misinformation and to highlight the practical implications of EU legislation on biotech food and feed products.

Biotech issues will continue to be important for U.S. agriculture in the immediate years ahead, whether in the WTO or in our bilateral relationships with customer and competitor nations alike. We continue to insist that biotech approval regimes, wherever they exist, must be transparent, timely, predictable, and science-based.

Maintaining Market Access

Inherent in the FAS mission is the need to anticipate and prevent disruptions to trade imposed by new market barriers. Perhaps no other task that we carry out is as important, yet less visible. It is a measure of our success that so many issues are resolved so quickly, with so little public awareness. Virtually every day, our overseas and domestic staff work as a team on a variety of concerns—first to prevent crises from developing and then to resolve thorny issues should they arise. They coordinate efforts with a number of USDA agencies, as well as with private sector companies and associations.

Every year, these activities preserve millions of dollars in trade that could have potentially been lost by countries imposing new barriers. Some problems may be resolved quickly with a phone call or a meeting; others are more complex, and involve multiple U.S. agencies. Our priorities include resolving poultry trade issues with Russia, poultry and other issues with Mexico, and tariff-rate quota and biotech issues with China.

Ensuring World Food Security

We recognize that significant emergency food needs continue to haunt many in the world and we are working to help address them. Today the most severe needs are in Mauritania, Sudan, Angola, North Korea, Afghanistan, southern Africa, and the Horn of Africa. The United States has delivered or pledged more than 500,000 tons (valued at $266 million) to southern Africa since the beginning of 2002, making us the largest donor to the World Food Program's (WFP) operations there. The United States is also providing food aid to Ethiopia, Eritrea, Sudan, Angola, North Korea, Afghanistan, and many other countries.

However, U.S. food aid donations are determined by the availability of commodities, budget resources and commodity and transport prices. We have reduced our reliance on that part of the Section 416(b) program that depended on the availability of surplus U.S. commodities and have increased funding under the more traditional Public Law 480 and Food for Progress authorities. We hope that this change will allow other governments, private voluntary organizations (PVOs), and the World Food Program to have a much more reliable picture of how much food aid will be available from the United States each year.

We also will be implementing the new McGovern-Dole International Food for Education and Child Nutrition Program. This new program, established in the 2002 Farm Bill, builds on the pilot Global Food for Education Initiative that I mentioned earlier. We will be working closely with the World Food Program and our PVO partners to ensure that this program gets off to a good start and builds on the success achieved by the Global Food for Education Initiative.

In addition, FAS continues to assist USAID in its Famine Early Warning System (FEWS) by providing satellite and crop data. We will soon launch our effort to track global water resources that will allow us to measure critical water reservoirs in developing countries.

But despite all our efforts, estimated food aid needs continue to be high. That is why we continue to press other major donors to increase their contributions. The United States is working with the G–8 to make this effort multilateral. In addition, we are especially supportive of the efforts of the WFP's new director to widen the spectrum of support from private sector organizations.

But we know food aid is not the only tool to achieve world food security. That is why Secretary Veneman will host a Ministerial Conference and Expo on Agricultural Science and Technology June 23–25 in Sacramento, Calif. Ministers are being invited from over 180 nations. The conference, also sponsored by the U.S. Agency for International Development and the Department of State, will focus on the critical role science and technology can play in raising sustainable agricultural productivity in developing countries, with the goal of boosting food availability and access and improving nutrition.

Implementing Program Changes

Our top program priority is developing and implementing the Trade Adjustment Assistance Program for Farmers, a new program established by the Trade Act of 2002. Under the program, USDA is authorized to make payments to eligible producer groups when the current year's price of an agricultural commodity is less than 80 percent of the national average price for a previous 5-year marketing period, and the Secretary determines that imports have contributed importantly to the decline in price. FAS is currently coordinating efforts with other USDA agencies to establish the new program. On April 23, we invited public comments on proposed regulations for the program.

Comments are due by May 23

Another priority is expanding our eGov capability. EGovernment is a multi-faceted initiative that will change the way we in FAS communicate with each other, with the rest of government, and most importantly, with the customers we serve around the world. For FAS, eGov means making more information and services available online, while organizing and presenting all of this data in a logical, accessible and useful way.

Specifically for FAS, this means changing our processes for producing data and information in ways that make it easier to categorize, publish and present online. FAS has committed to being an early adapter in the content management initiative of eGov. Within the next year, FAS will make most information-collecting forms such as grant applications and reporting documents interactive and available online. And in the long term, we will analyze every function and activity throughout the agency to develop ways to leverage our information technologies to complete our agency activities faster, smarter and better.

BUDGET REQUEST

Mr. Chairman, our fiscal year 2004 budget proposes a funding level of $145.2 million for FAS and 1,005 staff years. The request includes a number of important trade related activities and non-discretionary administrative increases.

First, an additional 20 staff years are proposed to facilitate the agency's active involvement in ongoing multilateral, regional, and bilateral trade negotiations and to bolster its efforts to address rapidly growing market access constraints related to biotechnology, and sanitary and phytosanitary measures. These will be funded from a centralized fund to be established in the Office of the Secretary to support cross-cutting USDA trade-related and biotechnology activities.

Additionally, the budget proposes an increase of $500,000 to support a series of regionally based seminars on the specifics of the Biosafety Protocol. Representatives from 170 countries are currently negotiating international provisions governing the shipment and use of products from biotechnology under the Cartagena Protocol on Biosafety. Parameters set under this agreement are intended to provide uniform international requirements for ensuring the safe transport and use of these products.

The Biosafety Protocol can offer a framework to guide countries that currently lack national regulatory systems for products of biotechnology. However, if member countries misinterpret the Protocol, it can seriously impede international trade, product development, technology transfer, and scientific research. Through a series of regional seminars, FAS will work to ensure that the implementation of these standards under the Biosafety Protocol are science-based, transparent, and non-discriminatory. These seminars will be coordinated in conjunction with other USDA agencies such as the Animal and Plant Health Inspection Service (APHIS), industry representatives, academia, the non-governmental organization community, and international regulatory agencies.

The budget also requests $5 million for a USDA contribution to the Montreal Protocol Multilateral Fund (MPMF). The MPMF was created in 1991 to help developing countries switch from ozone depleting substances to safer alternatives. Developing countries' commitment to comply with the Protocol's strict requirements is contingent on developed countries providing help through the MPMF. Historically, the Department of State (DOS) and the Environmental Protection Agency have provided nearly all U.S. payments to the MPMF. This has funded projects that are leading to the phase out of the production and use by developing countries of industrial chemicals that deplete the ozone layer, such as chlorofluorocarbons and halons. In the future, there will be an increasing focus on reducing the use of methyl bromide. In recognition of the growing importance of agricultural issues in the Montreal Protocol process, USDA is requesting a $5 million contribution to the MPMF.

The budget includes an increase of $4,220,000 for non-discretionary administrative requirements including:

—An increase of $1,871,000 to cover higher personnel compensation costs associated with the anticipated fiscal year 2004 pay raise. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2004 would primarily come from reductions in agency personnel levels, which would significantly affect FAS trade expansion efforts.

—An increase of $1,539,000 for inflation. Using the OMB economic assumption of 2.3 percent, this is the amount needed to offset anticipated inflationary cost growth. This increase is of particular importance for maintaining FAS offices overseas at current levels.

—An increase of $594,000 for higher ICASS payments to the Department of State. The DOS provides overseas administrative support for foreign affairs agencies through the International Cooperative Administrative Support Services (ICASS) system. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support. For fiscal year 2004, DOS has informed agencies that it anticipates an increase of 6.5 percent over fiscal year 2003 levels. That 6.5 percent estimate includes amounts for increasing staffing under the Diplomatic Readiness Initiative, continuing the Overseas Infrastructure Initiative, and budgeting for overseas comparability pay.

—An increase of $356,000 for increased overseas rental expenses arising from the sale of dedicated FAS overseas housing by DOS. Section 213 of the Foreign Relations Authorization Act, fiscal year 2003, (Public Law 107–228) repealed Section 738 of the fiscal year 2001 Agriculture Appropriations Act that limited DOS's authority to sell "unneeded" property by making sales decisions contingent on FAS approval. In view of this action and State's intention to sell three additional residences, FAS is now seeking additional funding to finance moves into commercial space where government owned space is not available.

—A decrease of $140,000 for the savings associated with centralization and improvement of information technology. Savings are associated with consolidated buys for infrastructure and office automation, and consolidation of enterprise architecture projects within the Department. USDA continues to ensure that information technology investments utilize enterprise licenses for hardware and software where appropriate and reduce the information technology costs.

Export Programs

Mr. Chairman, the fiscal year 2004 budget proposes $6.2 billion for programs to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries. The 2002 Farm Bill increased funding for several of these programs in order to bolster our trade expansion efforts that are reflected in the President's fiscal year 2004 budget.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $4.155 billion for export credit guarantees in fiscal year 2004.

Under these programs, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

—$3.3 billion for the GSM–102 program

—$18 million for the GSM–103 program
—$750 million for Supplier Credit guarantees
—$44 million for Facility Financing guarantees Market

Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2004, the CCC estimates include a total of $164 million for market development programs that includes:

—$125 million for the Market Access Program, an increase of $15 million over the fiscal year 2003 level of $110 million;
—$34.5 million for the Foreign Market Development (Cooperator) Program, unchanged from fiscal year 2003;
—$2.5 million for the Quality Samples Program, unchanged from fiscal year 2003; and
—$2 million for the new Technical Assistance for Specialty Crops Programs. International Food Assistance

The fiscal year 2004 budget continues the worldwide leadership of the United States in providing international food aid. In this regard, the fiscal year 2004 proposals total $1.6 billion which include:

—$1.345 billion for Public Law 480,which is expected to provide approximately 3.1 million metric tons of commodity assistance. For Title I, the budget provides for a program level of $160 million, which will support approximately 600,000 metric tons of commodity assistance. For Title II donations, the budget provides for a program level of $1.185 billion, which is expected to support 2.5 million metric tons of commodity donations.
—$151 million for Food for Progress. Funding at the requested level is expected to meet the minimum tonnage level of 400,000 metric tons stipulated in the 2002 Farm Bill;
—$118 million for Section 416(b) donations. Under this program, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation overseas. For fiscal year 2004, current CCC baseline estimates project the availability of surplus nonfat dry milk that could be made available for programming under section 416(b) authority; and
—$50 million for the McGovern-Dole International Food for Education and Child Nutrition Program. The McGovern-Dole program is an entirely new program, authorized by the 2002 Farm Bill. Fiscal year 2003 funding for McGovern-Dole is $100 million from CCC for both commodities and technical assistance. The fiscal year 2004 budget requests appropriated funding of $50 million. However, programming should not decline significantly in fiscal year 2004 because of the many programs that will likely carry over from fiscal year 2003. In developing the fiscal year 2005 budget, the Administration will be in a position to review program performance during fiscal years 2003 and 2004, and will make decisions on future funding in accordance with those results.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

—$28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years, and as such, the fiscal year 2004 budget assumes a continued limited activity. However, the 2002 Farm Bill includes a maximum annual EEP program level of $478 million allowable under Uruguay Round commitments and that amount could be used should market conditions warrant.
—$57 million for the Dairy Export Incentive Program (DEIP), $26 million above the fiscal year 2003 estimate of $31 million. This estimate reflects the level of subsidy currently required to facilitate exports sales consistent with projected United States and world market conditions and can change during the programming year as market conditions warrant.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

PREPARED STATEMENT OF ROSS J. DAVIDSON, JR., ADMINISTRATOR, RISK MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you to testify in support of the President's fiscal year 2004 budget for the Risk Management Agency (RMA). RMA has made rapid progress in meeting its legislative mandates to provide an actuarially sound crop insurance program to America's agricultural producers. However, more needs to be done. The program is expected to provide approximately $38 billion in risk protection on about 208 million acres in 2004, representing approximately 80 percent of the Nation's planted acres for principal crops.

RMA's primary mission is to promote, support and regulate the delivery of sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. Our key objectives in support of that mission are to:

—Provide widely available and effective risk management solutions;
—Ensure customers and stakeholders are well-informed;
—Provide a fair and effective delivery system;
—Maintain program integrity;
—Provide excellent service.

To achieve these objectives, RMA's total fiscal year 2004 budget request is $3.4 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) is $3,300,187,000 and for the Administrative and Operating Expenses the request is $78,488,000. This budget request includes a legislative proposal to reduce the administrative expense reimbursement to the insured companies.

FCIC FUND

The fiscal year 2004 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet producers' needs. The current estimate of funding needs is based on USDA's latest projections of planted acreage and expected market prices. The fiscal year 2004 budget requests an increase of $389.2 million from $2.9 billion in fiscal year 2003 to $3.3 billion in fiscal year 2004. The budget request includes increases of $69.9 million for Premium Subsidy, $30.3 million for Delivery Expenses, $10.0 million for mandated Agricultural Risk Protection Act of 2000 (ARPA) activities, and $346.8 million for reimbursement to the Insurance Fund for U.S. Treasury transfer for excess 2002 crop year losses. The legislative proposal is expected to save approximately $67.8 million in 2004 by reducing the administrative expense reimbursement rate paid to the insured companies from 24.5 percent to 20 percent. These savings are achievable principally because there has been a substantial growth in premium dollars and reimbursements have increased proportionally—in essence, insuring the same number of acres at higher levels of coverage.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's fiscal year 2004 request of $78.5 million for Administrative and Operating Expenses represents an increase of about $8 million from fiscal year 2003. This budget will support increases for information technology (IT) initiatives in the amount of $5.5 million. These IT funds are targeted towards the continual maintenance and enhancement of the corporate operating systems necessary to run the program. Included in the total request is $1.0 million to expand the monitoring and evaluation of reinsured companies, and $1.3 million for pay cost for a staffing level of 568 employees.

Finally, this budget also includes a funding request of about $8.7 million for information technology for the RMA under the Common Computing Environment (CCE) in the budget of the Chief Information Officer. This amount is in addition to the funding requested above the administrative and operating expenses of RMA. Historically, funding under the CCE has been reserved for the service center agencies. The Department is working aggressively to coordinate its information technology resources to ensure greater efficiency in software development, hardware acquisition and maintenance and in sharing common data among its various agencies. The best way to ensure the level of coordination required is to provide funding under the controls of the CCE.

In addition, RMA has an aging information technology system, the last major overhaul occurred about 10 years ago. Since that time the crop insurance program has expanded tremendously. Catastrophic coverage and revenue insurance products have been initiated and coverage for new commodities has been added including many specialty crops and more recently livestock. In short, RMA's information technology system has not kept pace with the changes in the program. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and FSA. The funding will also provide for the development of a new information technology architecture to support the way RMA will need to do business in the future.

PROGRAM HIGHLIGHTS

Board of Directors

A new FCIC Board of Directors (Board) was appointed in 2002. This Board and I have set an aggressive agenda to address producers' issues and challenges in the crop insurance program. This agenda increases participation in the program, ensures outreach to small and limited resource farmers, expands programs where appropriate, affirms program compliance and integrity and ensures equity in risk sharing. Nine Board meetings were held during 2002. The Board approved 26 programs in fiscal year 2002 and is considering another 18 programs. Private companies submitted five of the approved programs. Two of these were livestock programs. RMA is efficiently contracting for and reviewing new products, and promoting new risk management strategies.

In 2002, RMA provided approximately $37 billion of protection to farmers, and expects indemnity payments for 2002 losses of approximately $4.2 billion. The expected loss ratio for 2002 is 1.42 compared to 1.0 for 2001. In 2002, much of the agriculture region across the United States suffered from severe drought conditions. The increase in the loss ratio reflects this. As a result, the amount of claim payments made under the crop insurance program increases significantly. This shows that the agriculture community is successfully benefiting from the risk management tools the government provides. RMA continues to evaluate the crop insurance program to identify areas for improvement and to create new products for commodities that are not offered coverage under the current crop insurance programs so that the government can eliminate or at least substantially reduce the need for ad-hoc disaster assistance payments to the agriculture community. The participation rate was approximately 80 percent. While participation in the program is voluntary, subsidizing the premium paid by farmers for coverage encourages participation.

Increases in subsidies resulting from the passage of ARPA had a positive affect on participation. Since 2000, farmers have shown a trend of choosing to purchase higher levels of buy-up protection and revenue coverage policies. In 2002, over 50 percent of the insured acreage was insured at 70 percent or higher level of coverage compared to only 9 percent in 1998. The high participation rate and the higher levels of coverage purchases by participants have added to the ability for Crop Insurance to become the main risk management tool for America's farmers. We have made additional improvements recently that will continue this trend. In addition, the increased number of farmers buying up higher levels of coverage has generated the efficiencies reflected in the proposal to lower the administrative expense reimbursement rate.

Program Compliance and Integrity

RMA, with the assistance of the Farm Service Agency (FSA) and private sector insurance providers, works to improve program compliance and maintain the integrity of the Federal Crop Insurance Program. In order to complete ARPA requirements, RMA executed procedures for the FSA to refer potential crop insurance abusers. RMA established a fraud case management system and improved the sanction process. In addition, RMA implemented data mining projects and fine-tuned the data reconciliation process.

Last year RMA achieved a 700 percent increase in referrals on possible instances of fraud through data mining and analysis, a formalized alliance with FSA, and collaboration with approved insurance providers. These results demonstrated the direct impact of RMA's public effort to prevent fraud and saw an estimated $94 million reduction in program costs by preventing potential fraudulent claims during October 2000 through December 2001. This strategy and its effects are discussed further in the RMA's Program Compliance and Integrity Annual Report to Congress.

Livestock Insurance Plans

The FCIC Board approved two pilot insurance programs for Iowa swine producers to protect them from declining hog prices. The two approved programs are the Livestock Gross Margin Pilot and the Livestock Risk Protection Pilot. Both policies are available from private insurance agents. Authorized under ARPA, these types of livestock insurance programs provide livestock producers with effective price risk management tools. RMA is providing $19 million in coverage on approximately

304,000 hogs for the 2003 reinsurance year. Pilot program length will be determined by farmer participation and financial performance of the program.

The Livestock Gross Margin (LGM) pilot protects swine producers from price risks for 6 months and up to 15,000 hogs per period. The policy protects the gross margin between the value of the hogs and the cost of corn and soybean meal. Prices are based on hog futures contracts and feed futures contracts. LGM protects producers if feed costs increase and/or hog prices decline, depending on the coverage level selected by the producer. Coverage levels range from 85–100 percent. LGM sales began in July 2002. There are two sale periods each year—January and July.

The Livestock Risk Protection (LRP) pilot protects producers against declining hog prices if the price index specified in the policy drops below the producer's selected coverage price. Swine can be insured for 90, 120, 150, or 180 days, up to a total of 32,000 animals per year. Unlike traditional crop insurance policies which have a single sales closing date each year, LRP is priced daily and available for sale throughout the year. Coverage levels range from approximately 70–95 percent of the daily hog prices. In addition, the FCIC Board recently approved LRP for both fed and feeder cattle beginning in 2003. We expect these programs to be available in late spring.

Adjusted Gross Revenue—Lite

The FCIC Board approved the Adjusted Gross Revenue-Lite (AGR-Lite) insurance plan in late 2002 and began sales for 2003. This product was submitted to FCIC through Section 508(h) of the Federal Crop Insurance Act. AGR-Lite is available in most of Pennsylvania and covers whole farm revenue up to $100,000, including revenue from animals and animal products. RMA encourages other states to develop similar programs.

Adjusted Gross Revenue (AGR) Cost-Share Program

ARPA authorized cost-sharing to assist producers in reducing financial risk through product diversification. To meet this directive, FCIC announced a cost-share program for AGR insurance that was made available in 11 underserved Northeastern States: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, and Vermont. Under this program, FCIC paid 50 percent of the producer-paid premium and the full $30 administrative fee.

Cost of Production

In 2001, RMA contracted for research and development of a Cost of Production (COP) insurance pilot program for 12 crops (soybeans, corn, cotton, wheat, rice, almonds, peaches, cranberries, apricot, nectarines, onions, and sugarcane). The FCIC Board considered an initial COP program for cotton this past fall. Expert reviewers and the Board indicated several significant issues for further review. As a result, the Board concluded that more work is needed to successfully bring producers a COP policy to meet their needs. Currently, RMA and the contractor are working diligently to find solutions to these issues. Should the issues be resolved and a cotton pilot program is successful, RMA plans to expand COP coverage to other crops.

Forage and Rangeland

RMA currently offers the Group Risk Plan (GRP) Rangeland Pilot in twelve Montana Counties. GRP is an alternative risk management tool based on the experience of the county rather than individual farms. It indemnifies the insured in the event the county average per-acre yield (the "payment yield") falls below the insured's "trigger yield." We are doing everything possible to ensure payment yields accurately and fairly represent the production experience of Montana's rangeland producers. RMA is diligently working with the Montana Agricultural Statistics Service as well as the Farm Service Agency (FSA) to obtain the best data needed to develop appropriate payment yields. While considerable interest has been generated in the program, we recognize specific problems need solutions. RMA contracted for an evaluation of the GRP program and is looking forward to potential solutions for making this product more effective. RMA also contracted for a feasibility study specifically for pasture and rangeland. This study suggested a risk management program could be developed for these individual crops, and RMA is proceeding with the development in fiscal year 2003.

Nursery Crops

RMA recently completed work on many significant changes to the nursery program. RMA will be contracting for a cost benefit analysis leading to a proposed rule in the Federal Register. The nursery industry will have the opportunity to comment on the rule, which is expected to be announced as a proposed rule during the 2003 calendar year. These changes were in response to producers' requests to modify the program to align it more closely with production practices and producer needs, balanced with the need to maintain program integrity.

Research and Development

During fiscal year 2002, over $19 million was obligated to qualified public and private organizations for research, feasibility studies, and development of risk management products. This represents approximately 45 contracts and partnership agreements. Examples include Florida fruit trees; Hawaii tropical fruit and tree research and development; livestock disease research and a sorghum pilot program; risk reduction for specialty crops in the southeast; direct marketing of perishable agricultural crops; and an apiculture insurance product, among others.

Risk Management Education

During fiscal year 2002, RMA focused its outreach and education program on underserved states, specialty crop producers, the Dairy Options Pilot Program, grants through the Cooperative State Research, Education, and Extension Service, and the Adjusted Gross Revenue (AGR) Cost Share Program. In 2002, RMA established cooperative agreements in historically underserved states with respect to crop insurance; 13 cooperative agreements totaling $1.8 million were established to deliver crop insurance education to producers in Connecticut, Maine, New Hampshire, Pennsylvania, Vermont, West Virginia, Delaware, Maryland, New Jersey, New York, Utah, and Nevada. These cooperative agreements expand the amount of risk management information available to producers and promote risk management education opportunities. The agreements will also inform agribusiness leaders of increased emphasis on risk management and deliver risk management training to producers emphasizing outreach to small farms.

In addition, RMA awarded 72 partnership agreements to specialty crop producers at a total cost of $3.7 million. RMA is in partnership to deliver risk management education to specialty crop producers with state departments of agriculture, universities, grower groups, and private agribusinesses. In conjunction with the Future Farmers of America, RMA also promotes youth participation and education in agriculture.

National Outreach Program

RMA has implemented several initiatives to increase awareness and service to small and limited resource farmers, ranchers, and other underserved groups. During 2002, customized regional and local workshops were held in several regions to deliver proven survival strategies directly to the producers. Forty-five competitively awarded partnership, with community-based, educational and nonprofit organizations will use $3.2 million to educate women, limited-resource, and other traditionally underserved farmers and ranchers. For example, an agreement with the Agricultural and Land Based Training Association will provide risk management training to beginning Latino farmers on the central coast of California. RMA is sponsoring and participating in approximately 15 Farm Bill briefings nationwide, targeting small and limited resource farmers and ranchers. In addition, the second national Survival Strategies for Small and Limited Resource Farmers and Ranchers is currently scheduled for November 2003 in California.

PROGRAM ISSUES/CONCERNS

RMA received notice in November of the business failure of one of its larger reinsured companies, American Growers Insurance Company (AGIC). The Nebraska Department of Insurance took action under state law to place AGIC under regulatory supervision and later moved to place the company under a rehabilitation order. RMA has devoted significant resources to ensure that producers insured by AGIC are paid in full and on time. Our primary objectives are to protect policyholders, taxpayers and the integrity of the program. RMA is working with the Nebraska Department of Insurance to meet these objectives. RMA has established procedures for policyholders to transfer from AGIC to other approved providers. The transfer of fall 2003 policies is essentially complete. Spring policy transfers are being processed. RMA will continue to provide the necessary oversight, regulatory collaboration, and resources until the 2002 crop year claims are complete and existing 2003 policies have been transferred to another insurance provider.

PROGRAM STRATEGIES/OVERSIGHT

The President's fiscal year 2004 budget includes $1.0 million for monitoring and evaluating the reinsured companies. RMA is increasing oversight of the reinsured companies to promote a fair and effective delivery system. The actions being taken by RMA are:

—Closer and more frequent monitoring of the current and emerging financial condition of each reinsured company;

—Greater disclosure and transparency of specific operating expenses, including distribution system costs, and enhanced assessment of potential financial and operating exposures;

—Comprehensive reviews of the Federal Crop Insurance Corporation's product portfolio and all manuals, handbooks and basic policies to identify process and product efficiencies;

—Comprehensive evaluations of the current regulatory structure and dispute resolution procedures to identify any changes that would enable RMA to more proactively and cost-effectively ensure program integrity, service to the policyholder and protection of the taxpayers' interests;

—Working with the reinsured companies and other delivery participants to review the current cost structure of the industry, to identify and pursue real cost savings, explore opportunities that may allow more effective risk diversification consistent with the market orientation of the program, and explore resource sharing where appropriate and effective; and

—Increased monitoring and oversight of the insured companies' financial condition to protect program integrity. If FCIC determines that a reinsured company is (a) incurring expenses that jeopardize the financial stability of the company; (b) accepting business beyond its capacity to service or financially support that business; or (c) otherwise operating in a manner that adversely affects its financial condition or continued participation in the Federal Crop Insurance Program, then RMA will use all remedies available to protect the program.

We will also pursue actions necessary to enhance the safety and soundness of the product delivery system.

CONCLUSION

As shown by my testimony today, the RMA crop insurance plan is working; higher participation and higher levels of coverage substantiate that Crop Insurance is becoming the main risk management tool for America's producers. Over $4 billion in coverage will go directly to producers this year. Buy-up coverage has dramatically increased. Insurance coverage has expanded to forage, fruits and vegetables, nursery products and livestock. Thousands of producers have participated in education and outreach activities. Cooperative agreements with state universities and department of agriculture have been established. New enforcement and sanction authority has been implemented as provided by ARPA. I ask that you approve this budget so RMA, under the direction of the USDA, can continue to provide an actuarially sound crop insurance program to America's agricultural producers. Thank you, Mr. Chairman and members of this committee. This concludes my statement. I will be happy to respond to any questions.

Senator BENNETT. Thank you very much, Dr. Penn.

Now we go to Mark E. Rey, who is the Under Secretary for Natural Resources and Environment. Mr. Rey?

NATURAL RESOURCES AND ENVIRONMENT

Mr. REY. Chairman, I appreciate the opportunity to appear before you here today to present the fiscal year 2004 budget and program proposals for the Natural Resources Conservation Service. In light of the fact that the Senate was in session late, I will attempt to be very brief.

Before I highlight our vision for 2004, though, I want to take a moment to mention the diligent work of the NRCS employees in accountability and results measurements for the funds provided by Congress last year. NRCS is more accessible to farmers, ranchers, and the general public, and the public is getting a good deal for the monies appropriated to NRCS.

This week marks the 1-year anniversary of the signing of the Farm Bill. This Farm Bill represents historic opportunities, but it also represents a historic challenge for our natural resources professionals. The 2004 budget request for NRCS includes $1.2 billion in appropriated funding and $1.4 billion in mandatory CCC funding for the Farm Bill conservation programs. That includes $850 million for the Environmental Quality Incentive Program. The 2004 budget also proposes $704 million for Conservation Operations, which includes $577 million for conservation technical assistance. This will continue the agency's activities that support locally led, voluntary conservation through the unique partnership that has been developed over the years with each soil and water conservation district.

This partnership provides the foundation on which the Department addresses many of the Nation's critical natural resources issues, such as maintaining agricultural productivity and water quality. It leverages additional investments from non-Federal sources.

I believe that the NRCS can continue to build upon the level of excellence demonstrated so far if it is provided the right support and the needed resources as provided in the President's budget request. Given the challenges presented by this Farm Bill, I suggest that we will be pursuing three areas of emphasis in 2004: first, to provide adequate support for Farm Bill implementation through a dedicated technical assistance account; second, to further leverage the assistance of our conservation partners through a new technical services provider program; and, third, to ensure adequate support for conservation operations with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

PREPARED STATEMENTS

In summary, I believe the Administration's 2004 request reflects sound policy and will provide a greater level of stability to the vital mission of conservation of private lands.

Thank you very much.

[The statements follow:]

PREPARED STATEMENT OF MARK REY

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the fiscal year 2004 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). First, I would like to congratulate you Mr. Chairman in your new role for the subcommittee. I would like to express gratitude to Members of this body for ongoing support of private lands conservation.

Private Lands Conservation Gains

Mr. Chairman, in order to bring us to a common starting point and provide a context for the President's fiscal year 2004 Budget Submission, I would like to take a moment to highlight some of the impressive gains in conservation that have been realized.

—Farmers and ranchers have reduced soil erosion on cropland and pasture by 1.2 billion tons from 1982 to 1997 alone.
—Landowners have reduced the loss of wetlands caused by agriculture to only 27,000 acres per year between 1992 and 1997. That's down from nearly 600,000 acres a year in the 1950s, 1960s, and 1970s.
—Landowners have used the Wetlands Reserve Program to restore nearly one million acres of wetlands since 1991.
—They have used the Conservation Reserve Program to produce hunting and recreation benefits estimated at more than $700 million per year.

—Since 1999, animal feeding operations have applied nutrient management on more than 5 million acres.
—They have installed 26,000 waste management systems and completed more than 11,000 Comprehensive Nutrient Management Plans.
—Through the Grazing Lands Conservation Initiative, owners of ranchland and pasture have developed grazing management plans for more than 80 million acres of grazing land since 1999.
—And farmers and ranchers are helping improve air quality by increasing the amount of carbon stored in the soil through a process known as "carbon sequestration."

All of these accomplishments have led to cleaner air and cleaner water, and conservation of our soil. But there is much more our private landowners can do, with the assistance of government and of partners. USDA will help landowners by offering proper incentives, and pursuing the science and policies that are needed to create a market for the additional environmental benefits landowners can produce and want to produce.

The Administration is investing in private land conservation at an historic level to make this happen. The President's budget for fiscal year 2004 includes a record $3.9 billion for conservation on our Nation's farmlands, more than double the funding level in the past 2 years.

Performance and Results

Mr. Chairman, before I provide the details of our future vision for fiscal year 2004, I wanted to take a moment to mention our diligent work in accountability and results measurement for the funds provided by Congress last year. I am proud of the strong efforts that NRCS has made in the past year under the leadership of Chief Knight on performance and results as well as making NRCS more accessible to farmers, ranchers, and the general public. I believe we are offering greater value to taxpayers, and can demonstrate increased accountability to Congress as well.

For fiscal year 2002, USDA received a clean audit opinion for all Department financial statements.

This clean rating was the result of our staff overcoming many hurdles such as ascertaining by appraisal the costs of real property, cleaning up years of neglect in personal property, accelerating month-end time tables in order to prepare reports, and correcting cash imbalances with the Department of Treasury. NRCS employees worked many nights and weekends to ensure the accuracy of reports and to correct state data that was in the system, leading to the unqualified opinion.

Looking Ahead

Mr. Chairman, last year at this time, we discussed the Administration's views for the future of agriculture policy and outlined several conservation provisions of Food and Agriculture Policy: Taking Stock for the New Century. A year later, virtually all of the Administration's conservation principles have been advanced in the form of the new Farm Bill. This Farm Bill represents historic opportunities, but it also represents a historic challenge for our natural resource professionals.

The 2002 Farm Bill contains many new conservation programs designed to protect and enhance the environment. The Department is now faced with the demanding task of implementing this Farm Bill which provides more than $17 billion in new funding over the next 10 years. The 2004 budget request in the conservation area recognizes the importance of this task, as well as the need to continue to support underlying programs to address the full range of conservation issues at the national, State, local and farm level.

The 2004 budget request for NRCS includes $1.2 billion in appropriated funding, and $1.4 billion in mandatory CCC funding for the Farm Bill conservation programs, including $850 million for the Environmental Quality Incentive Program. The appropriation request includes $577 million for conservation technical assistance for the base programs that support the Department's conservation partnership with State and local entities. One new element in the NRCS account structure, proposed initially in a 2003 budget amendment, is a new Farm Bill Technical Assistance Account that will fund all technical assistance costs associated with the implementation of all the Farm Bill conservation programs. In 2004, this new appropriation account is requested at $432 million.

The 2004 budget for NRCS will also enable the agency to maintain support for important ongoing activities such as addressing the problems associated with polluted runoff from animal feeding operations and providing specialized technical assistance to landusers on grazing lands. In addition, limited increases will be directed to other high priority activities such as addressing air quality problems in noncompliance areas.

Technical Assistance

Technical Assistance funding for conservation programs has been the subject of ongoing controversy for several years and a topic of interest to this Subcommittee. A fiscal year 2003 Budget amendment provided a long-term solution to the technical assistance issue by establishing a new Farm Bill Technical Assistance account and dedicating additional resources for this purpose. While Congress rejected this proposal, we appreciate your taking proactive steps to deal with the long-standing problem of technical assistance for Farm Bill conservation programs in the Consolidated Appropriations Resolution for fiscal year 2003. However, we believe that this legislation contains many deficiencies. As such, we would like to continue working with the Subcommittee on an approach that is mutually acceptable and beneficial.

Conservation Operations (CO).—The 2004 budget proposes $704 million for CO which includes $577 million for Conservation Technical Assistance (CTA). This will continue the agency's activities that support locally-led, voluntary conservation through the unique partnership that has been developed over the years with each conservation district. This partnership provides the foundation on which the Department addresses many of the Nation's critical natural resource issues such as maintaining agricultural productivity and water quality and leverages additional investment from non-Federal sources.

The CTA budget will also enable NRCS to increase support for certain activities as well as maintain funding for ongoing high priority work. For example, increases are provided in the budget for additional specialized staff and training to help address air quality problems in areas that are not in compliance with national air quality standards; to enhance the Customer Service Toolkit which provides NRCS field staff with the geographic data and technical tools that they need to adequately deliver farm bill conservation and other field programs; and to establish a monitoring and evaluation regiment that will provide more meaningful performance goals and measures for Farm Bill conservation programs.

Last year, I pointed out the excellent customer service ratings that NRCS staff has received from an independent analysis. Mr. Chairman, I believe that NRCS can continue and build upon this level of excellence, if they are given the right support and the needed resources as provided in the President's budget request.

Given the challenges presented in the Farm Bill, I suggest the following areas of emphasis:

—Provide adequate support for Farm Bill implementation through a dedicated Technical Assistance account.

—Further leverage assistance for our conservation partners and through the new Technical Service Provider system. These new sources of technical assistance will complement our existing delivery system.

—Ensure adequate support for Conservation Operations, with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

Mr. Chairman, in summary, we all know that we are trying to plan for the future under an atmosphere of increasingly austere budgets and with a multitude of unknowns on the domestic and international fronts. But I believe that the Administration's fiscal year 2004 request reflects sound policy and will provide a greater level of stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars.

I thank Members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2004 budget request. I assumed the responsibility of Chief of the Natural Resources Conservation Service (NRCS) one year ago, and believe that this period of time has presented one of the most significant junctures in private lands conservation.

One year ago, we witnessed enactment of one of the most important pieces of conservation legislation history in the form of the 2002 Farm Bill. The legislation responds to a broad range of emerging conservation challenges faced by farmers and ranchers, including soil erosion, wetlands, wildlife habitat, and farm and ranchland protection. Private landowners will benefit from a portfolio of voluntary assistance, including cost-share, land rental, incentive payments, and technical assistance. The

Farm Bill places a strong emphasis on the conservation of working lands—ensuring that land remaing both healthy and productive.

The conservation title of the Farm Bill builds upon past conservation gains and responds to the call of farmers and ranchers across the country for additional cost-sharing resources. In total, this legislation represents an authorization of more than $17 billion in increased conservation spending. In addition, the legislation will expand availability and flexibility of existing conservation programs, and increase farmer participation and demand for NRCS assistance.

Three weeks ago, we released the funding allocations to our states for all of the conservation programs. Through these allocations, more than $1.8 billion in assistance has been made available to farmers and ranchers. And beyond allocating the funds, we have been working expeditiously to set in place the program guidelines and technical tools needed to implement these conservation opportunities on the ground. To date, we have published in the Federal Register rulemaking for every ongoing Farm Bill conservation program NRCS administers. This includes Final Rules for the Wetland Reserve Program, Wildlife Habitat Incentives Program, Environmental Quality Incentives Program, and the Farm and Ranch Lands Protection Program. We are making funds available under the Grassland Reserve Program. I am also pleased to note that we had an extremely robust comment period and response from all sectors of the agriculture and conservation interests to our Advanced Notice of Proposed Rulemaking on the Conservation Security Program (CSP). We are currently analyzing and incorporating the feedback we have received as we begin development of a proposed rule for CSP. Given the widespread provisions and complexity of the Farm Bill, I think this record is a testament to the hard work and dedication of our staff and I am proud of what we have accomplished. One year after enactment, we are open for business, and ready to the needs of farmers and ranchers.

MEETING EMERGING CHALLENGES

Throughout the course of fiscal year 2002 and fiscal year 2003 as Congress developed and enacted the new Farm Bill, I am proud of the proactive steps that our agency took in order to prepare for emerging challenges. I would like to highlight our work in this area.

Increasing Third-Party Technical Assistance

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS will look to non-federal partners to supply the technical assistance needed to plan and oversee the installation of conservation practices. NRCS will use the new Technical Service Provider (TSP) system to facilitate this technical assistance delivery. The TSP system ensures that producers have the maximum flexibility for choosing a third-party provider to work on their land, while also ensuring that TSP providers are properly certified and meet NRCS standards.

Expanding Local Leverage

One of the key attributes that NRCS has developed for local leverage is the Earth Team volunteer program. We, at NRCS, are proud of the Earth Team's accomplishments and the record expansion that this program has experienced. The National Earth Team Status Report for fiscal year 2002 showed a 19 percent increase in the number of volunteers, a 17 percent increase in the number of volunteer hours and a 5 percent increase in the number of NRCS offices using volunteer services over the previous year's figures. For fiscal year 2002, the total value of volunteer time was more than $17 million, based on the $16.05 hourly rate established by nationally recognized volunteer organizations. The total amount invested nationally in the Earth Team is approximately $199,000, which gives NRCS a return on its investment equal to $86 for every $1 spent.

Since the Earth Team began in 1982, the number of volunteers has gone from 327 to more than 38,000 and the number of hours donated has jumped from 29,100 to 1,089,100. I believe that Earth Team volunteers will be increasingly important as we move forward to implement the new Farm Bill and provide more conservation on private lands in the future. It serves as an excellent example of the kind of partnership effort needed to accomplish the massive challenge of getting private lands conservation out to those farmers, ranchers, and private landowners who need assistance.

Lean and Local and Accessible

One of the core themes that I have stressed to our agency is the need to be lean and local. Throughout the year, we have worked hard to provide as much decision-making flexibility to the local level as possible. In addition, we have worked to provide streamlined business processes to improve use of valuable staff resources.

One of the most important investments we can make today in improved efficiency is development of new and improved technical tools for use by our staff and the general public. Recently, we launched the Electronic Field Office Technical Guide (EFOTG). The EFOTG provides conservation information and scientific and technological resources on the Web in an easy-to-use environment. The electronic technical guides are linked to 8,000 NRCS web pages and external sites. Content includes data in technical handbooks and manuals, scientific tools that help generate conservation alternatives, conservation practice standards, conservation effects case study reports and other electronic tools for evaluating the effects of conservation technical assistance. In total, the EFOTG will make our information more accessible, and supports the President's Management Agenda for E-Government. The EFOTG is part of our larger efforts at developing SMARTECH to provide technical information to a broad base of conservation professionals and the general public.

Access and Accountability

As a core principle, we need to increase the accessibility of NRCS to the public, not only by providing conservation data, but also by making our internal processes more easily understood. This year, we have taken steps to make items such as our allocation formulas, backlog and program participation data much more transparent to the general public. We have worked to foster competition and reward performance, in our internal functions and also in contracting and cooperative agreements. Throughout this process, our goal has been to provide the best and most efficient service to producers at the local level and to make NRCS more farmer friendly and accessible.

We know this process will take time, and I look forward to continuing this effort into the future.

DISCRETIONARY FUNDING

While we have come a long way in the past year, the future presents many emerging challenges and bright horizons. The President's fiscal year 2004 budget request for NRCS reflects our ever-changing environment by providing appropriate resources for the ongoing mission of NRCS and ensuring that new opportunities can be realized.

Conservation Operations

The President's fiscal year 2004 budget request for Conservation Operations proposes a funding level of $704 million which includes $577 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to increase support for certain activities as well as maintain funding for ongoing high priority work. For example, increases are provided in the budget for additional specialized staff and training to help address air quality problems in areas that are not in compliance with national air quality standards; to enhance the Customer Service Toolkit which provides NRCS field staff with the geographic data and technical tools that they need to adequately deliver Farm Bill conservation and other field programs; and, to establish a monitoring and evaluation regiment that will provide more meaningful performance goals and measures for Farm Bill conservation programs.

High priority ongoing work that will be maintained includes addressing water pollution associated with animal agriculture. In addition to regular technical assistance support provided to grazing land customers, the budget proposes to maintain funding for Grazing Land Conservation Initiative (GLCI) at $22 million in 2004. The GLCI is a private coalition of producer groups and environmental organizations that supports voluntary technical assistance to private grazing landowners and managers.

The Conservation Operations account funds the basic activities that make effective conservation of soil and water possible. It funds the assistance NRCS provides to conservation districts, enabling people at the local level to assess their needs, consider their options, and develop area-wide plans to conserve and use their resources. Conservation Operations support the site-specific technical assistance NRCS provides to individual landowners to help them develop plans that are tailored to their individual economic goals, management capabilities, and resource conditions. It also includes developing the technical standards and technical guides that are used by everyone managing soil and water—individuals, local and State agencies and other Federal 6 agencies. It includes our Soil Survey and Snow Survey Programs and other natural resources inventories, which provide the basic information about soil and water resources that is needed to use these resources wisely. This basic inventory work contributes to homeland security as well as to the long-term sustainability of the Nation's natural resource base.

We have made great strides in developing an effective accountability system with the support of Congress. This accountability system has allowed us to accurately track the accomplishments of Conservation Operations. In fiscal year 2002, technical assistance supported by Conservation Operations funds enabled land users to treat 9.46 million acres of cropland and 11.5 million acres of grazing land to the resource management system level (sustainable management). On 7 million acres of cropland that had been eroding at severely damaging rates, NRCS technical assistance enabled farmers to reduce erosion to the tolerable rate or less, thus preserving the productive capacity of the soil.

In fiscal year 2002, NRCS continued to assist producers to respond to the publics concern about water quality through the development of regulations addressing water quality at local, State, and Federal levels. We applied practices to help protect water quality, including 5.4 million acres of nutrient management, 1.84 million acres where irrigation water management was improved, and 578,419 acres of buffer practices. All of these activities were supported by Conservation Operations; in some cases, funds from other Federal programs or State or local sources were utilized in combination with Conservation Operations.

Adequate funding for Conservation Operations in 2004 will enable NRCS to continue to provide assistance to producers across the country. It will also enable us to increase our attention to critical resource concerns, such as animal feeding operations and assistance to producers who will be required to take actions under the new CAFO rule. EPA estimates that 15,500 producers will come under the new regulatory framework. Most if not all of these producers will require planning assistance from NRCS with nutrient management-related concerns.

Another serious concern continues to be the health of private rangeland and pastureland. The Nation's 630 million acres of non-Federal grazing lands are vital to the quality of the Nation's environment and the strength of its economy. In November 2002, we were successful in issuing new technical guidance to field staff for conservation assistance on private grazing lands. Our guidance will help provide producers with the ecological principals associated with managing their land and implementing a conservation plan that meets their management objectives and natural resource needs. I believe that we need to offer a high level of excellence to grazing land and am proud of the great strides that we are making in this area. Sustained resources in Conservation Operations will mean that needed expertise can be brought to bear at the field level on farms and ranches.

Farm Bill Technical Assistance

Fully funding technical assistance for the Farm Bill programs is essential to ensure the environmental benefits that are expected from the significant increase in conservation spending. In a 2003 budget amendment, the Administration proposed establishing a new $333 million account to fund the technical assistance needed to implement the conservation programs authorized in the 2002 Farm Bill. The 2004 budget proposes the Farm Bill Technical Assistance (FBTA) account at a level of $432 million and would provide technical assistance funding for the 2002 Farm Bill conservation programs which include the Conservation Reserve Program, the Wetland Reserve Program, the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Farm and Ranchland Protection Program, the Conservation Security Program, and the Grasslands Reserve Program.

This new account will be used to plan, design, and oversee the installation of conservation practices, and maximize the amount of dollars available to help farmers and ranchers install on-the-ground conservation projects. Establishing one technical assistance account will also improve the accountability and transparency of the conservation program's cost of delivery.

Watershed and Flood Prevention Operation (WFPO).—The 2004 budget proposes funding for the Public Law 566 Watershed Operations, but requests no funding for the Emergency Watershed Protection program. With emergency spending being so difficult to predict from year to year, the budget proposes instead to direct available resources to those projects that are underway and for which Federal support is critical for their successful implementation. Funding for the regular watershed program will also address the backlog of unmet community needs by ensuring implementation of those watershed projects that are designed to meet these needs.

Watershed Surveys and Planning.—NRCS works with local sponsoring organizations to develop plans on watersheds dealing with water quality, flooding water and land management, and sedimentation problems. These plans then form the basis for installing needed improvements. The Agency also works cooperatively with State and local governments to develop river basin surveys and floodplain management studies to help identify water and related land resource problems and evaluate alternative solutions. The 2004 Budget requests $5 million to ensure that this important work is continued.

Watershed Rehabilitation Program.—One of the agency's strategic goals is to reduce risks from drought and flooding to protect community health and safety. A key tool in meeting this goal is providing financial and technical assistance to communities to implement high priority watershed rehabilitation projects to address the more than 11,000 dams installed with USDA assistance that will be or are now at the end of their 50-year life span. Some dams already pose a significant threat to public safety and these will naturally be the first to be addressed. The budget proposes $10 million to continue the work begun in 2002.

Resource Conservation and Development (RC&D).—The purpose of the RC&D program is to encourage and improve the capability of State and local units of government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for RC&D. NRCS also helps coordinate available Federal, State, and local programs. The 2004 budget proposes a level of $50 million which will support the 368 RC&D areas now authorized.

FARM BILL AUTHORIZED PROGRAMS

Environmental Quality Incentives Program (EQIP).—The purpose of EQIP is to provide flexible technical, educational, and financial assistance to landowners that face serious natural resource challenges that impact soil, water and related natural resources, including grazing lands, wetlands, and wildlife habitat management. We have seen that producer demand continues to far outpace the available funding for EQIP. During fiscal year 2002, we received 70,000 more applications than could be funded, representing financial assistance requests of $1.4 billion for one fiscal year. Projections for the future are that the demand will continue to eclipse the program. At the end of January 2003, we published revised program rules for EQIP resulting from the changes enacted in the new Farm Bill. We believe that the increased program flexibility and improved program features will continue to make EQIP one of the most popular and effective conservation efforts federal government-wide.

EQIP was reauthorized by the 2002 Farm Bill through 2007 at a total funding level of $5.8 billion, including $1 billion for 2004. The budget proposes a level of $850 million for financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement EQIP.

Wetlands Reserve Program (WRP).—WRP is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program cap to 2,275,000 acres. The fiscal year 2004 budget request estimates that about 200,000 acres will be enrolled in 2004.

Grassland Reserve Program (GRP).—The 2002 Farm Bill authorized the GRP to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long term rental agreements. The program participant would also enroll in a restoration agreement to restore the functions and values of the grassland. The 2002 Farm Bill authorized $254 million for implementation of this program during the period 2003–2007.

Conservation Security Program (CSP).—CSP, as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on Tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands and incentives for those who want to do more. In 2004, the budget proposes to cap CSP spending at a total of $2 billion over ten years.

Wildlife Habitat Incentives Program (WHIP).—WHIP is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitat will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The 2002 Farm Bill authorized $360 million for implementation of the program during the period 2002–2007 including $60 million in 2004. The budget proposes to cap WHIP at $42 million for financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement WHIP.

Farm and Ranchland Protection Program (FRPP).—Through FRPP, the Federal Government establishes partnership s with State, local or Tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The 2002 Farm Bill authorized a total of $597 million for the program through 2007 including $125 million in 2004. The budget, partially proposes a level of $112 million in financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement FRPP.

Conclusion

As we look ahead, it is clear that the challenge before us will require dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners. Conservation Districts, Resource Conservation and Development Councils and many valuable partners continue to make immeasurable contributions to the conservation movement. It is this partnership at the local level that makes a real difference to farmers and ranchers. As we move forward, we will accelerate the use of third-party sources of technical assistance as well. We recognize that the workload posed by future demand for conservation will far outstrip our capacity to deliver and seek to complement our resources with an appropriate system of qualified expertise.

But it will take a single-minded focus and resolve if we are to be successful. I am proud of the tenacity that our people exhibit day in and day out as they go about the work of getting conservation on the ground and I believe that we will be successful. But it will require the continued collaboration of all of us, especially Members of this Subcommittee because available resources will ultimately determine whether our people have the tools to get the job done. I look forward to working with you as move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that Members of the Subcommittee might have.

Senator BENNETT. Thank you, sir.

We are now going to hear from Thomas C. Dorr, who is the Under Secretary for Rural Development. Mr. Dorr.

RURAL DEVELOPMENT

Mr. DORR. Thank you, Mr. Chairman.

I, too, appreciate the opportunity to come before you this morning to present to you the President's fiscal year 2004 budget request for USDA's Rural Development. But as Mr. Rey first indicated, I would also like to acknowledge the exemplary performance of our associates at Rural Development and their ability to get our programs out in a timely and effective manner.

This budget strongly supports our vision of Rural Development as rural America's venture capitalist. Rural Development provides equity, liquidity, and technical assistance to finance and foster growth, developing new opportunities for home ownership, business development, and critical community and technology infrastructure. It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support, first, increasing economic opportunity and, second, improving the quality of life for all rural Americans.

This is a very basic concept to increase economic opportunity and improve the quality of life. But it is these fundamental principles that guide our mission at Rural Development. This organization, which used to be known as the old Farmers Home Administration, frequently known as the lender of last resort, is now Rural Development. And we are the venture capitalist for rural America.

With this renewed sense of understanding and purpose, Rural Development is utilizing the tools and resources at hand to support economic growth in rural America. Let me just highlight some of our more significant efforts.

Our single-family housing program forms the bedrock of our commitment to rural America. It is a commitment that allows over 40,000 families annually to realize their dream of home ownership. This Administration knows that owning a home is the oldest and best form of building equity, and we must encourage more families to invest in their future.

We are also providing rural community facility loans and grants for municipal, health care, child- and adult-care facilities, as well as public safety equipment of all kinds. And through our rural business programs, we expect to create or save through fiscal year 2003 funding over 90,000 jobs through the Business and Industry Guaranteed Loan Program and 30,000 jobs through local business revolving loan funds.

Additionally, we continue to implement the value-added Agricultural Product Market Development Grant Program through which over $57 million has been committed during the last 2 fiscal years and an additional $40 million will be committed this year.

On April 7th of 2003, we announced a $23 million farm bill-related Renewable Energy and Energy Efficiency Systems Grant Program to assist our rural small businesses, farmers, and ranchers to develop energy-efficient systems. Through these efforts, along with the tax incentives being considered by Congress, support for renewable energy ventures will be greatly enhanced. They can provide an important boost toward America's overall independence from foreign energy supplies.

An added focus this year is the implementation of the farm bill Rural Business Investment Program. This is a complex new initiative, and we are continuing to work with SBA to coordinate the implementation of this important program.

In our Rural Utilities Program, we are working to support the build-up of our rural technology infrastructure through making nearly $1.5 billion in rural broadband access loan funds available, along with our ongoing efforts through the telemedicine, distance learning loan and grant program. Additionally, our Water and Wastewater Program is providing communities with funding necessary to support the development of water and wastewater infrastructure.

Finally, I wish to report that our effectiveness in delivering all of Rural Development programs will ultimately be measured by a rigorous standard of accountability. We believe it is essential to be accountable to the Congress, the President, and, most importantly, the rural citizens which our programs are intended to benefit. And in that vein, we have several major initiatives underway.

One of our top initiatives is to look at the effectiveness of the current cooperative model for assisting farmers and ranchers, who struggle to convert equity and dreams into the kinds of economic opportunity they need and desire.

We are also focused on addressing and shoring up our multi-family housing portfolio. There are many converging dynamics relative to the current portfolio, which includes aging building complexes over 20 years of age.

Finally, we must work harder to ensure that the people of rural America are aware of what is available to assist them with their local efforts to increase economic opportunities and to improve their quality of life.

PREPARED STATEMENTS

The goal of the President and Rural Development is to support these communities in their quest for long-term sustainability and to place at their disposal the tools they need to succeed. I know you share this common value and desire to support rural America. We do as well. And, Mr. Chairman, we appreciate the support this committee has provided to this mission and to rural America.

At this time I will be happy to answer any questions that you may have.

[The statements follow:]

PREPARED STATEMENT OF THOMAS C. DORR

Thank you Mr. Chairman. Mr. Chairman, Members of the Committee, I appreciate the opportunity to come before this committee to present to you the President's fiscal year 2004 Budget request for USDA Rural Development.

This is my first opportunity to appear before you—as Under Secretary for Rural Development—I am honored by the opportunity President Bush has given me to serve my country in this position and to assist him in directing Federal resources to help rural America grow and prosper in an ever-changing environment.

My own roots in rural America run deep. For all but 9 years of my life I have lived, worked and enjoyed life on a farm in Northwest Iowa, and I am appreciative for the values these experiences have instilled in me.

I seek daily to apply those fundamental values and life experiences to the way we do business at Rural Development. My goal as Under Secretary is to pursue a clear vision and encourage a renewed commitment to the people and communities of rural America. I come to work each day determined to renew the energy and belief in ourselves and in all of rural America. By so doing, this will enable us to assure continued focus on our outreach efforts. This new sensitivity and belief in ourselves—not just as an agency or department—but our belief in the good people of rural America will drive all our efforts in Rural Development.

So I come before this Committee Mr. Chairman with a keen understanding of rural issues and a strong desire to implement federal programs provided through this President and Congress in a way that families and communities can utilize most effectively the available resources and opportunities.

VISION

The President's 2004 budget proposal is key to economic revitalization in rural America. It strongly supports our vision of Rural Development as the Venture Capitalist for Rural America. Rural Development provides equity, liquidity and technical assistance to finance and foster growth in existing and new opportunities for homeownership, business development, and critical community and technology infrastructure. The return on this equity is the economic growth realized through direct assistance and incentivizing private market forces.

So why do I say Rural Development is the venture capitalist of rural America? Because we, the President, and Congress believe in rural America. We believe the return on our investment will be a stronger rural economy and a higher quality of life, along with all the ancillary benefits derived from utilizing the talents of all rural Americans. Revitalized economic activity provides new opportunities for rural youth and helps stem out-migration from rural areas. It is critically important that we find ways to entice our young people to stay or even return to Rural America.

MISSION

It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support (1) increasing economic opportunity and (2) improving the quality of life of rural residents.

Historically, Rural Development has been associated with the old Farmers Home Administration—the lender of last resort. However, in order to properly address these mission goals, it is important to recognize the changes that have occurred throughout rural America. In the 1980 Census, it was revealed that over 960 counties derived at least 20 percent of gross income from production agriculture. The 2000 Census data indicated only 262 counties retain that distinction. These changes in our rural economy drive our efforts today. We must be aggressive in helping our communities develop new economic vehicles that will enable them to grow and prosper. The philosophies and drive of the old Farmers Home Administration no longer apply to today's Rural Development and today's rural communities.

It is with this renewed sense of understanding and purpose that Rural Development, under President Bush's leadership, has become rural America's venture capital firm. I would add that in contrast to reports that Rural America is dying, there is no reason to believe that we can't have economic growth in rural America. We have the essential tools and resources at hand.

RESPONSIBILITIES

Through Rural Development's Rural Business-Cooperative Service; Rural Housing Service; and Rural Utilities Service we offer a multitude of programs that support economic development.

Let me share with you a brief overview of the wide range of programs we administer.

Rural Housing

Housing is important because a home is the basis for the family. This President feels a safe secure home is the foundation for the family unit. In addition, owning a home is the oldest and best form of building equity. This is why the President has proposed a 32 percent increase for single-family housing direct loans in his 2004 budget.

In general, we provide loans and repair grants for single family, multi-family, and farm labor housing.

We also provide rural community facility loans and grants for municipal, health care, child and adult care facilities; as well as public safety equipment and facilities.

Rural Business-Cooperative Services

Through our rural business programs, we provide Business and Industry Guaranteed loans,

Fund the Intermediary Relending Program, which provides capital for local revolving loan funds, and

Have implemented the Value-Added Agricultural Product Market Development grants programs (VADGs).

Rural Utilities

In our rural utilities program, we support technology infrastructure through rural Broadband—Telemedicine/Distance Learning;

Rural Community water and wastewater loans and grants; and Electric and telephone direct and guaranteed loans.

Our programs may be traditional in name—but they must be used in new and innovative ways.

Rural Business-Cooperative Services should be mindful of the need to improve business knowledge and skills. Serious attention needs to be given to business strategies, finance, marketing and decision making that will enable farmers, business and community leaders to lead dynamic, creative businesses that can succeed.

Rural Housing Services must think about how its various programs can serve as a foundation for helping rural families build wealth through homeownership. We must be aggressive in ensuring that America's minority families gain access to financial resources that will allow increased levels of minority homeownership. The President has set a goal of assisting 5.5 million more minority families in attaining their dream of homeownership by the year 2010. It is a goal that we are diligently working to meet.

Finally, our utilities programs must focus on the future. Technology infrastructure will do for rural America in the 21st century what railroads did in the 19th century and highways in the 20th century. Rural America's economic future and her ability to remain viable in the global community will be dependent upon the development of the necessary communications infrastructure.

In all of these programs, it is important to remember that our effectiveness in delivering Rural Development programs will ultimately be measured by a rigorous standard of accountability. This accountability applies to our Congress, President and most importantly the rural citizens, which our programs are intended to benefit.

In that vein, we have several major initiatives underway:

PRIORITY INITIATIVES

One of our top initiatives is to look at the effectiveness of the current cooperative model for assisting farmers and ranchers. The traditional cooperative model was developed with good intentions. However cooperatives are now struggling to convert the equity and dreams of many rural Americans and agricultural producers into the kinds of economic opportunity they need and desire. Rural Development's Rural Business-Cooperative Service group should be at the focal point of this discussion and we intend to be.

We are also focused on addressing and shoring up our multi-family housing portfolio. There are many converging dynamics relative to the current portfolio, including the fact that it is an aging portfolio with many building complexes over 20 years old.

Another focus is on doing a better job of marketing our programs to rural America. Simply put, we must work harder to assure that the people of rural America are aware of what is available to assist them with their local efforts and initiatives to increase economic opportunities and improve quality of life. I believe that local communities are the cradles of innovation and, if properly encouraged and assisted, they will provide models and vehicles to help all of rural America better address its changing landscape.

Cooperation, coordination, and collaboration, both within Rural Development and with other public and private partners will be essential to maximizing the impacts of our programs. Our commitment will be evident through an extensive communications effort, to raise the visibility of Rural Development, and minimize the perception that programs are operated under individual agencies. We recognize Rural Development needs to articulate comprehensive development themes, and not promote individual agencies and their specific programs. We also recognize there is still a public perception that the Farmers Home Administration exists, with its role of being the lender of last resort. Rural Development will engage in a comprehensive communications plan that will clarify our mission to the public, clearly identify our accessibility, and underscore our commitment to cooperation, coordination, and collaboration across our programs.

SUMMARY

Rural communities, much like agriculture, have been undergoing critical changes that are important to their long-term sustainability and growth. The goal of the President and Rural Development is to support these communities and place at their disposal the tools they need to succeed. I know you share this common value and desire to support rural Americans in their efforts to capitalize on economic opportunities and an improved quality of life for their families and communities. With the support of the President, Congress, and public and private sector partners, the economic future of rural America will be strong.

RURAL DEVELOPMENT BUDGET REQUEST

Mr. Chairman, the President's commitment to rural America is reflected in the budget request for fiscal year 2004. The Rural Development request totals $2.3 billion in budget authority, to support $12 billion in direct loans, loan guarantees, grants and technical assistance, and to pay administrative expenses.

I will now discuss the requests for specific programs. Rural Utilities Service

The Rural Utilities Service (RUS) provides financing for essential infrastructure needs including electric, data/telecommunications, and water and waste disposal services that are prerequisite for economic development in rural areas. The RUS program request totals nearly $4.9 billion in program level, which is comprised of $2.6 billion for electric loans, $495 million for rural data/telecommunication loans, $50 million for Distance Learning and Telemedicine loans, $25 million for Distance Learning and Telemedicine grants, almost $200 million in loans and $2 million in grants to support broadband transmission, $1.1 billion for direct and guaranteed Water and Waste Disposal loans, $346 million for Water and Waste Disposal Grants, and $3.5 million for Solid Waste Management Grants.

Electric program funding will benefit about 3.3 million consumers from systems improvement, through upgrading almost 187 rural electric systems. Approximately 59,800 jobs will be created as a result of facilities constructed with Electric program funds. Almost 133,000 new subscribers will receive telecommunications service, over 495,000 existing subscribers will receive improved service, and about 11,385 jobs will be generated as a result of facilities constructed with Telecommunications funds. RUS will be analyzing loans made in 2002 and 2003 to determine ways to improve the electric and telecommunication programs. This will include a review of potential targeting opportunities to increase funding to needy areas. Under the Distance Learning and Telemedicine programs, approximately 140 schools will receive distance learning facilities and 55 health care providers will receive telemedicine facilities. Over 40,500 jobs will be generated as a result of facilities constructed with water and waste disposal program funds, as about 648 rural water systems and about 347 rural waste systems are developed or expanded in compliance with the Safe Drinking Water Act and Federal and State environmental standards.

The Rural Telephone Bank (RTB) was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies. This has proved to be remarkably successful, and efforts have been underway to privatize the bank. In 1996, the RTB began repurchasing Class "A" stock from the Federal government, thereby beginning the process of transformation from a Federally funded organization to a fully privatized banking institution. A private bank will have greater flexibility in providing support to rural America which will increase economic development opportunities. The fiscal year 2004 budget reflects the Administration's commitment to a fully privatized RTB that does not require Federal funds to finance the loans it makes.

I would like to underscore two points in our Rural Utilities budget request. First, regarding broadband loans, we are building on the $1.455 billion loan program recently announced. Mandatory funding is provided for this program under the Farm Bill. For fiscal year 2004, we are not seeking additional mandatory money, but, rather, are requesting $9.1 million in discretionary budget authority. We believe programs should compete for resources through the annual appropriations process. This level of discretionary budget authority will support almost $200 million of loans, continuing support for expanding broadband access in rural America. Second, we propose to provide the nearly $1.5 billion Water and Waste program level by relying on higher loan levels in meeting communities' needs. This increased reliance on loans is possible due to the low interest rate environment, the extensive funding provided in fiscal year 2002 under the Farm Bill, and the demonstrated needs in the current application pipeline.

RURAL BUSINESS-COOPERATIVE SERVICES

One key to creating economic opportunity in rural areas is the development of new business and employment opportunities. These opportunities are essential to retaining youth and ensuring young, emerging leaders remain in rural areas. But, local lending institutions frequently do not have the capacity or capital needed to sustain local businesses and generate new economic growth. Agricultural producers do not have a ready mechanism, or information necessary, to utilize the equity available in farmland for other business purposes. Such equity could be leveraged into other activities, providing capital infusions into capital-starved areas. Rural Business-Cooperative Services (RBS) programs, particularly the Business and Industry (B&I) loan guarantee program, were enacted to supplement the efforts of local lending institutions in providing capital to stimulate job creation and economic expansion. Cooperative Services' research and technical assistance has the capacity to assist in the identification and creation of new business structures and financing mechanisms to support innovative capital formation and utilization in rural America.

The RBS budget request for fiscal year 2004 totals about $718 million program level, the bulk of which represents over $600 million for the B&I loan guarantee program. Additionally, we are requesting to maintain the fiscal year 2003 President's program levels for the majority of the remaining RBS programs ($44 million for the Rural Business Enterprise Grant program, $3 million for the Rural Business Opportunity Grant program, $40 million for the Intermediary Relending Program, $15 million for Rural Economic Development loans, and $9 million for Rural Cooperative Development Grants.

The Farm Bill provided mandatory funding for Value-Added grants and Renewable Energy Systems and Energy Efficiency Improvements. We are not seeking those mandatory funds, but rather request discretionary funding to support these programs. As I stated earlier, the Administration believes programs should compete for funding in the appropriations process. For fiscal year 2004, we are requesting $2 million for Value-Added producer grants, and $3 million to support the Renewable Energy program. Through lessons learned from the Value-Added program administered with mandatory fiscal year 2002 funds under the Farm Bill, $2 million can be effectively deployed to promote value-added activities and stimulate income generation in rural areas. Three million dollars for renewable energy will assist in fulfilling the President's Energy Policy that encourages a clean and diverse portfolio of domestic energy supplies to meet future energy demands. In addition to helping diversify our energy portfolio, the development of renewable energy supplies will be environmentally friendly and assist in stimulating the national rural economy through the jobs created and additional incomes to farmers, ranchers, and rural small businesses.

RURAL HOUSING SERVICE

The budget request for programs administered by the Rural Housing Service (RHS) totals $5.7 billion. This commitment will improve housing conditions in rural areas, and, in particular, improve homeownership opportunities for minority populations. Rural Development has implemented a "5-Star Commitment," which supports the President's homeownership initiative. Under this 5-Star plan, our goal is to increase minority participation in housing programs by ten percent over the next few years.

The request for single family direct and guaranteed homeownership loans totals almost $4.1 billion, which will assist about 49,000 households, who are unable to obtain credit elsewhere. The RHS request maintains the program level for housing repair loans and grants, $35 million for housing repair loans and almost $32 million for housing repair grants, which will be used to improve 10,000 existing single family houses, mostly occupied by low income elderly residents.

This budget also supports my commitment to focus on repair, rehabilitation, and preservation of multi-family housing projects, with the goal of developing a comprehensive strategy for program overhaul. We are proposing a rental-housing request of $71 million for direct loans, $100 million for multi-family guaranteed loans, $42 million for farm labor housing loans, $17 million for farm labor housing grants, and $740 million in rental assistance. RHS has an existing multi-family housing portfolio of $12 billion, that includes 17,500 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. Given the demands for repair/rehabilitation and preservation of existing projects, and our ongoing study of program alternatives, we are deferring a request for new construction funding this year.

This budget provides an increase in farm labor housing loans and maintenance of farm labor housing grants. In total, the farm labor-housing program will rise to $59 million, which will address pressing needs for farm worker housing across the country. This program provides housing to the poorest housed workers of any sector in the economy, and supports agriculture's need for dependable labor to harvest the abundance produced by rural farms.

The budget includes $740 million for Rental Assistance, a slight increase over the current level. These payments are used to reduce the rent in multi-family and farm labor housing projects to no more than 30 percent of the income of very low-income occupants (typically female heads of households or the elderly, with annual incomes averaging about $8,000). This level of funding will provide rental assistance to almost 45,000 households, most of which would be used for renewing expiring contracts in existing projects.

The request for community facilities funding holds program levels to the fiscal year 2003 President's Budget—$250 million for direct loans, $210 million for guaranteed loans, and $17 million for grants. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. These funds will support 140 new or improved health care facilities, 370 new or improved public safety facilities, and 95 new or improved educational facilities.

ADMINISTRATIVE EXPENSES

These requested program levels provide ambitious targets for accomplishments, for which this Committee will be proud. However, delivering these programs to the remote, isolated, and low income areas of rural America requires administrative expenses sufficient to the task. Over the last several years, Rural Development has administered growing program levels, and new programs, with modest Salaries and Expenses (S&E) funding increases. From fiscal year 1996 through fiscal year 2002 Rural Development's annual delivered program level increased by 79 percent. Over that same period Rural Development's S&E appropriation increased 13 percent. Rural Development curtailed employment, and Full Time Equivalent (FTE) staffing fell 15 percent.

With an outstanding loan portfolio exceeding $86 billion, fiduciary responsibilities mandate that Rural Development maintain adequately trained staff, employ state of the art automated financial systems, and monitor borrowers' activities and loan security to ensure protection of the public's financial interests. Curtailed S&E funding in the past strained our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For 2004, the budget proposes a total of $680 million for Rural Development S&E, an increase of $50 million from the fiscal year 2003 President's Budget. The bulk of this increase is consumed by: pay costs; automated systems maintenance, enhancement, and operational cost increases; and funding the mandatory move of staff from downtown St. Louis to the Goodfellow Facility, a former military instillation. Twelve million dollars is requested to support enhancements of three automated financial systems—the Guaranteed Loan System, the Dedicated Loan Origination System, and the RUS Loan Servicing System, which maintain accounting and servicing information on direct and guaranteed loans across the mission area. Over $17 million is needed to fund the General Services Administration (GSA)-mandated move of Rural Development staff in St. Louis. We are also requesting $1.6 million to support several specific initiatives: continuing to monitor guaranteed single and multi-family housing lenders; funding studies and analysis of outsourcing; and continued Credit Reform modeling and analysis support. In fiscal year 2002, Rural Development received a clean audit opinion for the first time since 1994. However, the Office of the General Counsel and the General Accounting Office view our cash flow modeling efforts as short-term solutions, and recommend continued analysis and refinements. Contract assistance is needed to improve data collection, sensitivity analysis, and validation. Improvements in Credit Reform processes provide assurance that program budget cost estimates are reasonable. Our clean audit opinion was hard-won, and we thank this Committee for resources provided in the past to achieve this goal. We are committed to maintaining this high standard.

Rural Development is also requesting a modest (4 FTE) increase in staffing. These 4 FTEs will be senior analysts, with cutting-edge financial and analytical skills. They will be spread across the organization and provide financial and administrative analytical assistance to senior managers.

Rural Development is very appreciative of the funding provided in prior years for automated financial systems development, which allowed Rural Development to continue to support systems for guaranteed loans, multi-family housing loans, Rural Utilities Service systems modernization, and the Program Funds Control System. This funding will allow Rural Development to continue to address long delayed automated systems development needs, but these are major projects and will not be completed in 1 year. We urge the committee to fund the President's fiscal year 2004 $680 million S&E request.

Mr. Chairman, Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development budget request.

Prepared Statement of Hilda Gay Legg, Administrator, Rural Utilities Service

The fiscal year 2004 budget reflects President Bush's support for investing in the infrastructure of rural America. It includes $4.9 billion in loan and grant assistance for the on-going electric, telecommunications, and water and waste programs, which compares to $4.8 billion in the fiscal year 2003 budget.

TELECOMMUNICATIONS PROGRAM

The building and delivery of an advanced telecommunications network is having a profound effect on our Nation's economy, its strength, and its growth. In discussing the importance of advanced, high-speed access—commonly referred to as "broadband service"—at the Economic Forum in Waco this past summer, President Bush said: "In order to make sure the economy grows, we must bring the promise of broadband technology to millions of Americans. And broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America."

Just as our citizens in our cities and suburbs benefit from access to broadband services, so should our rural residents. Broadband service is a necessity in rural America, it plays a vital role in solving the problems created by time, distance, location, and lack of resources. The promise of broadband is not just "faster access".

Today's advanced telecommunications networks will allow rural communities to become platforms of opportunity for new businesses to compete locally, nationally and globally, and the funding we are seeking in the fiscal year 2004 budget request will help us continue to meet the "new communications needs" of rural America and ensure that no rural resident—from students to parents and teachers, from patients to doctors, or from consumers to entrepreneurs—will be left behind in this new century.

Treasury Rate, Guaranteed, and Hardship Loans

Since 1995—when Rural Development implemented Congress' visionary policy requiring that all Rural Development-financed facilities be "broadband capable"—every telephone line constructed with Rural Development financing is capable of providing advanced services using digital and fiber technologies. These loan programs target the most rural of our rural communities, towns with populations of less than 5,000 people.

The fiscal year 2004 budget further targets rural areas experiencing extreme financial hardship, by nearly doubling the amount of Hardship loan funds available to those borrowers that serve the most rural, highest cost areas. The budget proposes over $145 million in direct hardship loans, an increase of approximately $70 million over the 2003 program level. These loans bear a fixed 5 percent interest rate to ensure project viability and feasibility, and due to the extraordinary repayment history, carry a zero subsidy cost—so no increase in budget authority is necessary. The budget also proposes $350 million in Treasury rate loans and loan guarantee authority—which can be provided for a modest subsidy cost of only $125,000. This represents a cost of just over two one-thousandths of a cent for every resident in rural America!

Rural Telephone Bank

This budget also reflects the Administration's commitment to accelerate privatization of the Rural Telephone Bank—as required by law—and therefore does not request budget authority to support lending for fiscal year 2004. Today, the bank operates as a supplemental lender to entities eligible to borrow from the Rural Development program. A privatized bank would be able to expand or tailor its lending practices beyond the current limitations imposed as a governmental lender, as well as leverage its substantial loan portfolio and cash reserves to extend favorable credit terms to rural companies that do not quality to borrower from Rural Development.

Broadband Loans and Grants

We are seeking continued support from Congress for funding to facilitate the deployment of broadband service in rural areas. As part of the Administration's continuing commitment to invest in rural America, in January, Rural Development announced the opening of its "Access to Broadband" Program as authorized by the Farm Security and Rural Investment Act of 2002, Public Law 107–171. It is the culmination of a 2-year pilot program under the Bush Administration that financed $180 million of loans dedicated to bringing broadband service to rural communities—where nearly 100,000 customers will receive first-time broadband service!

This new program will have a profound affect on the lives of rural Americans. Over the next year, it is expected that $1.4 billion in loans and loan guarantees will be made to bring the promise of high-speed access—or Broadband—to our rural communities. This substantial investment level—nearly $680 million greater than original estimates—is a result of 2 years of mandatory budget authority for fiscal years 2002 and 2003 and a very favorable subsidy cost/rate. This funding is "no-year" money and will remain available until expended. Because of this enormous lending level leveraged by low subsidy rates, the fiscal year 2004 budget proposes to eliminate the mandatory budget authority of $20 million and replace it with approximately $9.1 million in discretionary authority. This will result in a total loan and loan guarantee program of approximately $1.7 billion over the first 3 years of funding (fiscal years 2002 through 2004), versus the estimated $1.2 billion when the Farm Bill was passed.

Even during these fiscally challenging times, Congress has overwhelmingly supported funding for broadband projects. The proposed budget seeks to minimize taxpayer costs while providing the investment level envisioned by Congress and the Administration in the Farm Bill.

The budget also proposes $2 million in grants to provide broadband service to areas that cannot afford loans. This past year, as part of the pilot program, Rural Development made available grant funds in a program called "Community Connect"—a new and exciting approach to community funding. Funding is available to provide broadband service to "connect" the schools, libraries, police and fire stations, hospitals, community centers, businesses, and residents—everyone in the community—and introduce them to the benefits of advanced communications infrastructure. For some communities, this program will provide the seeds for sustained economic growth and community prosperity. The proposed grant authority will enable us to continue to seek ways to ensure that no one is left behind.

There are many challenges before us and even greater rewards if we succeed. And the investment IS needed. Much is depending upon a successful public/private partnership. Rural economies today are much more than the farm-based economies of a few years ago. And broadband service not only provides critically needed economic stimuli for rural communities through e-commerce initiatives and by enticing new businesses, it creates a new workforce of students educated through distance learning programs with the skills necessary to compete globally.

Distance Learning and Telemedicine Loans and Grants

The Distance Learning and Telemedicine program continues its charge to improve educational and health care delivery in rural America. The terms "distance learning" and "telemedicine" are becoming synonyms for "opportunity and hope."

Telemedicine projects are providing new and improved health care services beginning with patient diagnosis, through surgical procedures and post-operative treatment. New advancements are being made in the telepharmaceutical and telepsychiatry arenas and providing health care options never before available to many medically under-served, remote, rural areas.

Distance learning projects continue to provide funding for computers and Internet connection in schools and libraries. The vast array of study options available to rural students through distance learning technologies literally brings the world to their doorstep.

The value of these services to rural parents, teachers, doctors, and patients is immeasurable. Building on advanced telecommunications platforms, distance learning and telemedicine technologies are not only improving the quality of life in rural areas, but they are also making direct contributions to the economies in rural areas by introducing the skills needed for a high-tech workforce and promoting sound health care practices, including preventative care initiatives.

Over the past 10 years in which this program has operated, it is clear that the demand for loans in this program is very small. This is primarily due to the types of entities that are eligible to borrow—namely schools and health care providers serving rural areas. In most cases, schools are prohibited from entering into loan agreements and would not be able to generate revenues to repay the loan if they could. The high cost associated with the provision of rural health care limits the feasibility of telemedicine loans as well. Telemedicine offers a means to reach the most isolated and poorest residents of the country, but does not always provide a means for cost recovery. Therefore, in the fiscal year 2004 budget, $50 million in loans is being requested. This amount is more than sufficient to cover loan demand based on past program experience and to meet any demand from larger, consortium-based entities with the necessary resources to collateralize a loan. The budget seeks $25 million in grants to continue the tremendously popular and successful grant program.

Local Television

As you are aware, in December 2000, the Local TV Act, "Launching Our Communities' Access to Local Television Act of 2000", Public Law 106–553 was enacted. The Local TV Act provides for the establishment of the Local Television Loan Guarantee Board (the Board) consisting of the Secretaries of Agriculture, Treasury, Commerce, and the Chairman of the Board of Governors of the Federal Reserve System, or their designees. The Board is authorized to approve loan guarantees of up to 80 percent of the total loan amount of no more than $1.25 billion to facilitate access, on a technologically neutral basis, to signals of local television stations for households located in nonserved and underserved areas. This program has been fully funded through fiscal year 2002 appropriations and mandatory funding provided in the 2002 Farm Bill. Therefore, no additional funding is being requested in the fiscal year 2004 budget.

Telecommunications Program Conclusion

Given the amount of investment capital necessary to deploy advanced telecommunications technologies—not to mention the lack of available private capital—it is unreasonable to believe that the private markets, particularly local banks, can generate the capital required.

Our goal should be to deploy a seamless, Nation-wide broadband network, where the only thing distinguishing users is their zip code.

Since private capital for the deployment of broadband services in rural areas is not sufficient, incentives offered by the Rural Development program are more important than ever before. Providing rural residents and businesses with barrier-free access to the benefits of today's technology will bolster the economy and improve the quality of life for rural residents.

There is no one solution to the complicated issue of bringing advanced telecommunications services to every citizen. Government incentives; cost support mechanisms; changes in technologies; and private investment—each must play a role. Rural Development will continue to do its part.

ELECTRIC PROGRAM

The Rural Development Electric Program budget proposes a program of $2.6 billion. This amount includes: a hardship program level of $240 million; a municipal rate program level of $100 million; a $700 million funding level for Treasury rate loans; and a $1.5 billion funding level for guaranteed loans through the Federal Financing Bank, which does not require any budget authority; and $60,000 in budget authority for a $100 million loan guarantee program for private sector loan guarantees.

In the last 4 fiscal years (1999–2002) RUS had lent over $6.2 billion for distribution facilities. In addition, it is anticipated that another $2 billion will be lent for distribution purposes in fiscal year 2003, which will bring the total over $8.2 billion. In the past 3 years (2000–2002) RUS had lent over $3.8 billion for generation and transmission facilities. In addition, it is anticipate that another $1.7 billion will be lent in fiscal year 2003, which will bring the total to over $5.5 billion. When consideration is given to the amount we have lent in the last 5 years and the fact that the backlog will have been reduced to less than 6 months, there is no demonstrated need for a $4 billion loan program in fiscal year 2004.

An example of how our rural electric borrowers can improve the economic potential and quality of life in rural communities is the United Cooperative Service (United) in Cleburne, Texas. United was created in April 2000, from the consolidation of Erath County Electric Cooperative Association and Johnson County Electric Cooperative Association. United provides service to 77,916 consumers, using 8,819 miles of distribution line. In January 2002, Rural Development awarded a loan to United for $32 million to serve 10,823 new consumers, build 743 miles of new distribution lines, and make other system improvements.

WATER AND ENVIRONMENTAL PROGRAMS

This budget seeks $346 million in budget authority for Water and Waste Disposal (WWD) grants; $3.5 million in budget authority for solid waste management grants; and $35 million in budget authority to support over $1.1 billion in WWD direct loans and $75 million in guaranteed loans.

The budget request earmarks $11.8 million for Colonias along the U.S.-Mexico border, $16.2 million for technical assistance and training grants, $9.5 million for the circuit rider technical assistance program, $11.8 million for rural Alaskan villages, $13 million for Federally Recognized Native American Tribes; and $12.6 million in budget authority for loans and grants Federally designated Empowerment Zones and Enterprise Communities. Our budget request will also allow third-party service providers, such as rural water circuit riders, to make over 56,000 water and wastewater system contacts to communities needing technical assistance, and through a clearinghouse effort, take more than 20,000 telephone calls and an estimated 11,000 electronic bulletin board and web site contacts.

As a result of Rural Development's strong technical assistance efforts, both from staff and third-party service providers/contractors, loan delinquency and loan losses will remain low. Currently, only 1 percent of approximately 8,000 borrowers is delinquent. Since the inception of the water and waste disposal program, less than 0.1 percent of the amount loaned has been written off.

Rural Development programs improve the quality of life and health of an estimated 1.4 million Americans in needy communities each year by providing access to clean, safe drinking water. In addition, new or improved waste disposal facilities are provided to an estimated 500,000 people living in rural areas. A field network of Rural Development employees deliver the program through "hands-on" technical and financial assistance under the Rural Community Advancement Program.

The Water and Waste Disposal program has been very successful since its inception over 60 years ago. A total of over $25 billion in financial assistance has been provided, about 70 percent of that in the form of loans; approximately 45 percent of the total has been provided during the past 10 years. Indications suggest, however, that needs for water and waste disposal systems are still significant and are likely to grow as a result of expanding population in rural areas, changes to water quality standards, drought conditions, and similar factors. The additional funding provided by the Farm Bill helped reduce the backlog for assistance. However, the backlog still persists and totals approximately $2.3 billion. Over the last 3 years, Rural Development has assisted 1,124 borrowers in moving up to commercial credit in accordance with its graduation requirement. The loans paid off as a result of this effort totaled nearly $680 million.

Mr. Chairman, this concludes my testimony for the Rural Development fiscal year 2004 budget for rural utility programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

PREPARED STATEMENT OF ARTHUR A. GARCIA, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the President's fiscal year 2004 proposed budget for the USDA Rural Development rural housing and community program.

Rural Development assists in making rural America a better place to live and work. Our rural housing loan and grant programs help to revitalize small towns and rural communities. Most of our customers are first-time homebuyers who turn to us because we, in many instances, provide the only opportunity to share in the benefits of homeownership. As Secretary Veneman said last fall, "homeownership strengthens our rural communities and contributes to the overall quality of life for rural families. USDA works with community organizations, lenders and individual residents to provide opportunities to the millions who seek the dream of owning a home." We are called upon to be citizen-centered in President Bush's management agenda. We have responded to this call with programs that help rural families purchase homes and gain access to affordable rural rental housing, and we provide financing for essential community services, such as facilities for health care, police and fire protection, adult day care, child care, and educational institutions.

For more than 50 years, Rural Development has assisted some of our Nation's poorest people who reside in the most remote areas of our country. Whether on Indian reservations in the Dakotas; the Colonias along the Mexican border; the isolated pockets of the Appalachian mountains in West Virginia; or the Mississippi Delta, our programs provide the essential link to individuals, communities, and financial markets so that all rural residents may share in our Nation's prosperity and enjoy the basic human dignities of housing and community facilities.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2004 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

With the $5.67 billion total program funding, more than $4 billion will be used to make guaranteed and direct Single Family Housing (SFH) loans. This includes an increase of approximately $400 million more for direct loans. These funds will assist nearly 49,000 rural families to purchase homes, and most of them will be first-time homeowners. Of the SFH funds, $2.5 billion will be available as loan guarantees with private partners to help approximately 28,500 low- and moderate-income families become new homeowners. An additional $225 million in loan guarantees will be used to refinance loans for approximately 2,500 rural families in order to make their payments more affordable. We will fund another $1.4 billion in direct loans and assist nearly 18,000 low and very low-income families who cannot obtain credit to purchase homes without a down payment, or who cannot meet the loan terms offered through most lenders. In addition, the fiscal year 2004 budget includes $35 million in direct loans and $31.5 million in grants to approximately 12,000 elderly and disabled families or individuals to repair or rehabilitate their homes to decent, safe, and sanitary housing.

The subsidy cost of operating the SFH direct loan program will be less expensive in 2004 due primarily to lower interest rates which reduce the Government's cost of borrowing and more accurate projections of the financial status of our borrower population. This cost savings will enable Rural Development to help more families obtain homeownership and lowers the cost to taxpayers to about $7,000 per home financed. The loans that we guarantee in the private sector cost slightly less than $1,500 per home. For rural Americans with very-low, low, and moderate incomes, the SFH direct and guaranteed loan programs continue to be the most cost-effective housing programs available.

Five-Star Commitment to Increase Minority Homeownership

President Bush has made a commitment to remove the barriers that stand in the way of our Nation's minority families obtaining homeownership.

According to the 2000 census data, minorities represent about 13 percent of rural Americans. In fiscal year 2002, 32.2 percent of the direct loans and 12.1 percent of the loan guarantees administered by Rural Development made for single-family home purchases went to minorities. More than 60 percent of the loans and grants were made to women or female-headed households. We also help disabled families remodel, build and afford barrier-free access to housing.

We can do even better.

To implement the President's vision, Rural Development's Under Secretary Tom Dorr recently announced the USDA Five-Star Commitment to expand rural minority homeownership. This commitment will help make housing available to all rural Americans by:

—Lowering fees to reduce barriers to minority homeownership;
—Doubling the number of Mutual Self-Help participants by 2010;
—Increasing participation by minority lenders in our rural housing programs;
—Promoting credit counseling and homeownership education; and,
—Monitoring lending activities to ensure that we attain a 10 percent increase in minority homeownership.

Lowering Fees to Reduce Barriers to Minority Homeownership

To encourage more minority participation in the guaranteed single-family housing loan program, Rural Development recently reduced the guarantee fee to make homeownership more affordable. Our goal in reducing the up-front costs is to increase homeownership opportunities for low- and moderate-income borrowers, particularly minorities. The fee was reduced from 2 percent to 1.5 percent for purchasing a home, representing an average savings of $435 per family. Also, the fee was reduced from 2 percent to 0.5 percent for refinancing a guaranteed loan, representing an average savings of $1,305 per family.

We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable. Further, we work closely on the local level with local non-profits, which provide our first-time buyers with homeowner education training, credit counseling, and assistance in obtaining grants for closing costs and other basic homeowner assistance.

Doubling the Number of Self-Help Participants by 2010

The fiscal year 2004 budget request includes $34 million for the section 523 Mutual Self-Help Technical Assistance grant program. In fiscal year 2002, Rural Development partnered with more than 140 groups to help provide homeownership opportunities to rural families through this sweat equity' program. Last year, nearly 1,500 families built their homes through the Self-Help program, representing about 10 percent of the total SFH direct loans. Self-Help grantees assist groups of six to twelve families as they work together to build their own neighborhoods. They provide homeowner education, guidance through the loan application process, and supervision and technical assistance in building their homes.

The individual successes of our Self-Help borrowers are proof of the life-altering effect of this program. One example is the Elsie and George Phillips family of Birdsong, Arkansas. This couple, now in their 80's, recently moved into the new home they helped to build—after living in a dilapidated trailer for the past 24 years.

Increasing Participation by Minority Lenders in Rural Housing Programs

Rural Development works with more than 3,000 lenders and other partners in our direct and guaranteed loan programs. Lenders in the guaranteed program range in size from small hometown banks to large nationwide lenders. One of our largest lenders, J.P. Morgan Chase (Chase), recently committed $500 billion to increasing minority homeownership, in part through our rural housing loan guarantees. Chase is the largest participating lender and services almost 40,000 rural housing guaranteed loans, totaling over $3 billion.

Rural Development field employees are trained to reach out to their respective communities, develop relationships, and enhance partnerships with lenders and others serving the housing needs of minorities in rural America.

Promoting Credit Counseling and Homeownership Education

Rural Development has partnered with the FDIC to use its MoneySmart program to provide homeownership education to our applicants. FDIC has provided training to our field employees on their program. MoneySmart provides an additional tool to assist in creating successful homeowners.

Locally, rural housing partners with many Federal and State agencies to assure low-income applicants have access to homebuyer education. These programs, many funded through HUD's HOME program, provide homeownership education and credit counseling. We have established effective working relationships with public and private groups offering these services to rural communities. Our goal is to assure that homebuyer education programs are available in all rural areas.

Monitoring Lending Activities

Increasing minority homeownership is a serious matter for us. We have established goals at the National and State Offices. These goals are performance-based and at each level of the organization, performance will be rated, in part, by achievement of the goals.

Rural Housing Programs More Important Than Ever Before

The Home Repair Loan and Grant Program helps very low-income families whose homes are in need of repair. The program is for those families who own a modest home in a rural area, but are unable to obtain financial assistance to repair their homes. The average annual income of households obtaining home repair assistance last year was under $10,000. Funds are used to make substandard homes decent, safe and sanitary through repairs and rehabilitation, including installation of indoor plumbing, new furnaces, weatherization, safe wiring, new roofs, and making homes accessible for persons with disabilities.

In its October 2000 report, Opening Doors to Rural Home Ownership: Outcomes from the National Rural Housing Coalition Rural Home Symposium, the National Rural Housing Coalition stated, "Although poverty has decreased to its lowest level in 20 years, almost all of the changes occurred in central cities and metropolitan areas. Rural homeowners are more likely than homeowners as a whole to live in substandard housing."

In its December 2002 report Taking Stock: Rural People, Poverty, and Housing at the Turn of the 21st Century, the Housing Assistance Council stated: "Minorities in rural areas are among the poorest and worst housed groups in the entire Nation, with disproportionately high levels of inadequate housing conditions. Non-white and Hispanic households are nearly three times more likely to live in substandard housing than white rural residents."

The fiscal year 2004 proposed budget contains $66.5 million to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes $35 million in home repair loan funds for 6,000 very-low income families and $31.5 million for grants to assist a comparable number of elderly homeowners.

Jaime Morales moved to the United States in 1990. In 2002, he and his wife, Maria, were able to purchase their own modest home in Horizon City—near El Paso, Texas—for less than $20,000. However, as with many homes in the Colonias, their house lacked adequate plumbing and needed other repairs. Jaime could do much of the work needed on the house, but with limited income from work at a pallet shop, the plumbing would have to wait. A Rural Development grant of $3,320 has changed that by paying for a connection to a public water system, the Lower Valley Water District. We provided funding for piping, a sink, commode, water heater inside the house, and installation of an individual septic system. This grant has truly improved the living conditions of Mr. and Mrs. Morales and their son, Jaime, Jr.

We have a very successful record of working with private and nonprofit organizations to increase homeownership in rural communities. In fiscal year 1996, only about 8 percent of the SFH direct loans were leveraged with funds from additional sources, such as other bank loans, or were provided with down payment assistance and other grants. In that year, these other funding sources provided only 3 percent of the total cost of the home purchase. Last year, more than 55 percent of the loans were leveraged, with other sources contributing more than $120 million. This enabled us to assist an additional 2,000 families to own their home—an expansion of tax dollars of more than 12 percent.

MULTI-FAMILY HOUSING PROGRAMS

Rural Development's Multi-Family Housing (MFH) program together with Rental Assistance provide decent, safe, and affordable housing to families who need it the most. The MFH direct loan program is the largest of the MFH programs, and is a principal source of multi-family housing for the elderly in rural America. Elderly households make up approximately 55 percent of the residents in the MFH program. In this program, we make 1 percent interest loans to private individuals, state and local housing agencies, and non-profit organizations, who build apartments and offer them as rental housing, primarily to very low-income senior citizens and working mothers. The incomes of these households average about $8,100, well below the poverty level. Currently, we have a MFH portfolio of about 17,500 projects, which contains about 450,000 units. The total outstanding indebtedness of these projects is about $11.9 billion. Approximately 70 percent of the portfolio is over 15 years old and in need of repair.

The fiscal year 2004 budget proposes that $70.8 million in MFH direct loans be used to provide much-needed repairs or rehabilitation to approximately 5,900 projects in the current portfolio. We are not proposing fiscal year 2004 funding for new construction, however the budget includes $100 million in guaranteed loans that may be used for new construction. MFH guarantee loans will build 2,400 apartments and repair, rehabilitate and pay incentives to owners on 5,900 apartments. In addition, the request includes $42 million in loans and $17 million in grants for section Farm Labor Housing (FLH) living units—most of which will be new construction. These funds will finance over 1,700 apartments for migrant and farm workers. Providing adequate housing to these workers is essential to having a dependable and available workforce.

The President's fiscal year 2004 budget requests $740 million for Rental Assistance (RA) to ensure the integrity and financial stability of MFH and Farm Labor Housing loan and grant programs. In fiscal year 2004, well over 93 percent of the RA budget will be used to renew more than 42,000 RA contracts so that elderly, disabled, and female-headed resident households remain in safe and livable rental apartments they call home. The remainder of the RA funding will be used to keep rent affordable when repair and rehabilitation are needed for existing units. Rental assistance reduces the cost of housing for rural Americans with very low incomes to no more than 30 percent of their income.

Over the past year and a half, we have faced the possibility of losing affordable housing due to borrower prepayment. In 1979, 1988, and 1992, Congress passed legislative changes to the MFH programs to restrict a borrower's ability to prepay their loan, thereby protecting residents from displacement. Recent legal actions brought by borrowers have challenged the statute that governs the MFH prepayment process. The future of the MFH program will require continued strategic and tactical planning and execution to keep affordable housing available to our residents. Our methods will include a combination of changes to the program, program incentives to owners, and the establishment of new partnerships with state and local housing agencies, non-profits, and faith-based organizations, whose commitment to rural communities is long-term.

We look forward to working closely with you and your colleagues as we address the MFH program needs.

Rural Development's MFH program has a long proud history of working with faith-based organizations to provide housing to rural America. In fact, since 1975, we have made 125 loans to faith-based organizations and affiliation of faith-based organizations to construct more than 4,253 units of rental-assisted properties located in 24 states. More recently, several large national faith-based housing organizations have been very active in acquiring Rural Development-financed MFH properties that were in danger of being lost as affordable housing through prepayment. We encourage nonprofit organizations such as these to take over preservation properties, as the organizations often bring additional resident services to the properties. Additionally, their charters anticipate that they will remain owners in the program for a significant time period, thereby reducing the chance that a property will, again, be taken out of the affordable rural housing portfolio.

We are also examining industry-wide asset management practices to develop our MFH property's capital needs, such as roofing, exterior siding, major mechanical systems, window and door replacement, flooring, and rehabilitation of common areas such as laundry rooms, meeting rooms, and parking lots. Additionally, we have examined several asset management protocols developed by HUD, and incorporated those concepts into our recently implemented Multi-Family Information System (MFIS III). As a result, we can focus more closely on specific asset management attributes of small, rural apartments.

Based on housing industry standards and our own reserve requirements, owners will typically need about $10,000 per unit in rehabilitation funds every 8 to 12 years. Reinvestment of capital in these properties assures continued modernization of multi-family housing and protects the value of the property as collateral for the loan. Timing of these investments and adequacy of additional funding sources are aspects of capital risk management that must be considered. It is important to note that capital replacement is needed due to the normal aging of the physical building. We are working to determine the best methods to achieve these housing goals and will have a one-time comprehensive study of our portfolio conducted. We anticipate that the study will allow us to develop short-term and long-term strategies to manage and protect this $11.9 billion national asset.

COMMUNITY PROGRAMS

Along with decent and affordable housing, many communities also have a need for essential community facilities, such as educational buildings, fire, rescue, and public safety facilities; and child care centers, health care facilities, and day care and assisted living facilities for their increasing senior citizen populations. Having adequate community facilities not only impacts the quality of life for community residents, but also makes easier for communities to attract and retain businesses. Rural Development's Community Facilities (CF) direct and guaranteed loan and grant programs provide funding for these essential facilities.

The fiscal year 2004 budget includes a program level of $477 million for the CF program: $250 million for direct loans, $210 million for loan guarantees, and $17 million for grants. This level of funding will allow us to continue the commitment to educational facilities, which are especially important in preparing rural children and adults to compete in the global economy.

In fiscal year 2002, Rural Development assisted 134 communities by investing $46.7 million in buildings to house public schools, charter schools, libraries, museums, colleges, vocational schools, and educational facilities for the disabled. Rural Development also helped finance the purchase of computers and other technological equipment. Public safety is often a need in rural communities. In fiscal year 2002, we invested $105.7 million in 537 facilities, including communications centers, police, fire and rescue stations, civil defense buildings, and related vehicles and equipment. An example is the recently opened Central Shenandoah Criminal Justice Training Academy in Virginia's Shenandoah Valley. Rural Development invested $3.8 million in direct loan funds and $2.3 million in guaranteed loan funds in this 56,000 square foot facility, which can train 280 students at one time. The curriculum ranges from basic law enforcement through the most technical and sensitive issues of homeland security and emergency preparedness. The academy's membership comprises 57 agencies, including local police and sheriffs' departments, emergency operations centers, regional jails, and private police departments. The facility is also made available to State and Federal agencies for independent training.

In partnership with local and state governments and Indian Tribes, the CF budget will support more than 140 new or improved health care facilities, more than 130 new or improved fire and rescue facilities, and about 50 new or improved child care facilities in fiscal year 2004. These essential community facilities will create or preserve more than 30,000 jobs in rural America.

Centralized Service Center

The USDA Centralized Service Center (CSC) in St. Louis, Missouri, provides all written and oral communication to customers in either English or Spanish to better serve the needs of these customers. At the CSC, we have used aggressive recruitment and retention initiatives in order to create a workforce that is 11 percent bilingual. The CSC also works closely with the National Industries for the Blind and provides monthly mortgage statements in Braille for blind customers. National TDD phone service is also available from CSC, as well as e-mail customer responses for customers with hearing disabilities. Over 10 percent of the CSC employee population have a disability and are provided special equipment to enhance their productivity and ability to serve customers.

Rural Development's commitment to helping people become self-sufficient is also evident in their ongoing Welfare-to-Work initiative. CSC has worked with the St. Louis Transitional Hope House and the American Red Cross to employ former welfare recipients. Twenty-six employees referred through this effort started out as worker trainees. Eighteen have since been promoted into permanent loan processor positions. New worker trainees are provided with mentors, and may later become mentors themselves as they become proficient in the work environment. One employee who started in the Welfare-to-Work program is now enrolled in college and pursuing an accounting degree. Another has obtained rural housing financing and is now a proud single-parent homeowner.

The CSC has received several individual and Government agency awards for its initiatives. These include awards from the Council for Employment of Individuals with Disabilities, the Hispanic Employment Council, and the Black Employment Council.

eGovernment

Rural Development is actively supporting the President's eGovernment initiative. We are engaged in implementing a department-wide electronic government strategy, which calls for greater integration and collaboration across USDA and across government in developing and delivering services to citizens and businesses.

When I arrived last year at Rural Development, electronic loan processing for our SFH direct loan program was performed by a commercial, off-the-shelf software system. This software, called UniFi, improved rural housing loan processing nationwide, but was limited by requiring dedicated computers in each office.

In fiscal year 2002, $1 million was allocated to web enable' the UniFi software. The primary objective of the project was to convert the personal computer-based UniFi system to a centralized, web based server application that allows for multiple-user access and uniformed system maintenance. All field offices have successfully converted to the centralized database.

In our SFH guaranteed loan program, the primary platform that allows guaranteed lenders to interact with us is the Lender Interactive Network Connection (LINC). LINC was launched in 2001 and we are continuing with enhancements to improve the transfer of information between lender-partners and Rural Development.

Rural Development has also implemented an Electronic Data Interchange and a web-based reporting system that greatly enhances the ability of our lender-partners to report the status of the guaranteed loans they service. Lenders can report more data, more frequently, more accurately, at less expense.

We are very excited about the Automated Loss Claims system that will be implemented this spring. This web-based system significantly reduces the paperwork burden on our lenders, allowing them to submit their loss claims electronically. The Automated Loss Claims system will significantly speed up the process, saving the government interest expense. In addition, the Automated Loss Claims system will enable lenders and Rural Development to gather more comprehensive data on loss claims—data that will be used in our risk management efforts to continually reduce the cost of our programs.

Another technology-driven development is our Automated Underwriting system for guaranteed loans, scheduled for release this summer. This web-based system will automate the property and applicant eligibility determinations, streamline the underwriting process, allow for better and more fair underwriting decisions, improve the quality of our data, increase our risk management capabilities, and decrease processing time and costs for both lenders and Rural Development. Lower processing costs will lead to more affordable mortgages for rural home loan applicants.

We have developed two databases in MFH that provide accounting and management information. In fiscal year 2002, a major upgrade converted the existing system to a web-based format. The upgrade provided additional eGovernment capabilities by enabling borrowers to submit information electronically.

Rural Development has played an important role in the USDA's county-based agency eForm initiative. The eForms website was developed in response to the requirements of the Freedom to E-File Act (Public Law 106–222) passed by Congress in June 2000. Through collaboration with the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development, customers, producers, partners, and others have electronic access to forms related to USDA programs. The website permits Rural Development customers to access and download forms to apply and participate in our programs.

Rural Development employees and management recognize the tremendous positive impact of homeownership on the economy, its impact on families' lives, and on the strength of rural communities. We recognize that Rural Development cannot address the homeownership and rural community facilities issues alone, and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents. Rural Development will continue to reach out to and partner with lenders, the many faith-based groups and other non-profit organizations, as well as Federal, State, local, and Indian Tribal governments to meet the housing and community needs of low income families and individuals in rural America.

I hope I have illustrated for you the many ways that Rural Development's rural housing and community programs improve lives in rural areas. Mr. Chairman and members of the Committee, with your continued support, Rural Development looks forward to improving the quality of life in rural America by providing housing opportunities and building competitive, active rural communities.

PREPARED STATEMENT OF JOHN ROSSO, ADMINISTRATOR, RURAL BUSINESS COOPERATIVE SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the Administration's fiscal year fiscal year 2004 budget for Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in the under-served rural areas and populations. Rural Development programs, help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The $718 million requested in this budget for Rural Development programs will assist in creating or saving about 72,646 jobs and providing financial assistance to more than 2,269 businesses and cooperatives.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) program, the fiscal year 2004 budget includes $29 million in budget authority to support $602 million in guaranteed loans. We estimate that the funding requested for fiscal year 2004 would create or save about 19,156 jobs. We anticipate the demand for this program to continue to be strong.

The Business and Industry program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up and existing cooperative established for value-added processing.

I would like to share a success story to illustrate how this program has improved the economic climate in an under-served area of rural America. Finger Lakes Construction in Wayne County, New York, is a general contractor that specializes in the construction of post frame and steel frame buildings. They employ 115 people and have built numerous buildings for residential, commercial, and agricultural customers throughout central and western New York. The company had financed a considerable amount of their growth out of cash flow, which negatively affected their working capital. A $1,062,000 Business and Industry Loan capitalized those investments, and the company now has the working capital to meet their goals. The September 11, 2001, disaster and high out-migration of several New York communities has seriously affected many businesses, including the construction industry in many areas of New York state. This B&I guarantee helped to preserve local jobs within the State.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2004 budget also includes $17.3 million in budget authority to support $40 million in loans under the Intermediary Relending Program (IRP). The initial investment of this proposed level of funding will create or save an estimated 9,000 jobs. Because these funds are loaned three or four times by the intermediary over the 30-year loan term, we estimate that over 30,600 jobs will eventually be created or saved.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. The demand for this program continues to be strong. To illustrate the benefits IRP provides to rural America, I would like to share with you a story from Dimmit County, Texas.

The Neighborhood Housing Service of Dimmit County is a non-profit organization that has successfully administered $1.75 million in IRP funds and received an additional $750,000 in fiscal year 2002. The Neighborhood Housing Service has successfully loaned this money to businesses in an economically depressed part of Texas. Dimmit County is a poor community with a large portion of its population at or below the poverty level, with unemployment in the double digits. Dimmit County benefits from these loans through the creation of new businesses and additional employment opportunities. Overall, the Neighborhood Housing Service has made loans to 15 businesses, created 115 jobs, and continues to provide the communities with critical loans to support the livelihood in Dimmit and surrounding counties.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM

For the Rural Business Enterprise Grant (RBEG) program, the fiscal year 2004 budget includes $44 million. We anticipate that this level of funding will create or save over 16,300 jobs. The demand for these grants continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that each dollar of investment of an RBEG generates another $2.40 in private capital.

Among the many eligible grant purposes under this program is the renovation of existing facilities by the grantee to support small and emerging business development in rural areas. For example, renovation of an older building in the downtown area of rural Uniontown, Washington, and converting it into a business incubator was a way for this community to revitalize their downtown area and spur business development and job creation. A $75,000 RBEG will help to save and create 15 jobs in the business incubator. The first tenant of this building is a bakery, and other space is being prepared for additional tenants in this small agricultural community.

RURAL ECONOMIC DEVELOPMENT LOAN PROGRAM

The fiscal year 2004 budget includes $15 million in Rural Economic Development Loans. This program represents a unique partnership, since it directly involves the rural electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans to intermediaries, who invest the funds locally. In fiscal year 2002, each dollar invested through these programs attracted an estimated $9.91 in other capital. This is one reason why Rural Development is the venture capitalist in rural America. The return on our equity from rural America is strong.

I'd like to provide an example of how this program can assist. The Gibson Electric Cooperative was awarded a $400,000 Rural Economic Development Loan to assist the Williams Sausage Company, Union City, Tennessee, purchase machinery and equipment for a major expansion of the plant. The business is a major purchaser of hogs in the region and provides a market for local farmers in Tennessee, Kentucky, and Missouri. It is estimated that there will be 60 jobs created and 140 jobs saved by this one business assisted with Rural Economic Development Loan funds.

RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The fiscal year 2004 budget includes $3 million for Rural Business Opportunity Grants to provide much-needed technical assistance and capacity building in rural areas. The demand for this program continues to grow. Many rural areas need to develop economic and community development strategies that will attract private investment capital and Federal and State assistance. Also, the vast majority of rural communities are served by part-time officials who do not have the time or training necessary to compete with large communities for funding that may be available to them. The funds requested under this program will provide invaluable assistance to communities as they take their first step toward overcoming these impediments.

To illustrate, the Irwin County Board of Education in Ocilla, Georgia, will provide a construction consultant and professional staff to: (1) oversee the construction of an education facility; and (2) work with student interns, oversee demonstration projects, and facilitate meetings and education events. This Agricultural Demonstration and Education Farm project will cost an estimated $740,000, $45,000 of which is from a Rural Business Opportunity Grant. This is yet another example of the value in leveraging Rural Development funds.

RENEWABLE ENERGY GRANTS PROGRAM

The Renewable Energy Systems and Energy Efficiency Improvements Program was authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to: (1) purchase renewable energy systems; and (2) make energy efficiency improvements. The fiscal year 2004 budget proposes $3 million in discretionary funds, rather than mandatory funds authorized under the Farm Bill. The program supports the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the jobs created and additional income to rural small businesses, farmers, and ranchers.

COOPERATIVE SERVICES

The functions of our cooperative programs are authorized under both the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. Our programs serve as the focal point of national activity to help farmers and other rural residents help themselves by providing the necessary advice and assistance.

Rural Development recently produced a report titled "Cooperatives in the 21st Century." This report identifies the challenges and opportunities that face farmer cooperatives in the years ahead, and offers strategies to increase their chances of success. External forces besetting cooperatives are examined, as are their internal strengths and weaknesses. Priority issues are listed that cooperative members, leaders and advisors need to address. The report serves as a catalyst for further thought and discussion on how farmer cooperatives can enhance the income and quality of life available to their members.

In addition to providing written assistance, Rural Development helps cooperatives by providing hands-on instruction. Rural Development is providing technical assistance to the Southwestern Peanut Growers Association (SWPGA), a cooperative involving peanut growers in TX, OK, and NM. The cooperative is making a transition from a Commodity Credit Corporation (CCC) designated sales agent for government-owned peanuts to a marketing cooperative. To maintain this activity, SWPGA must develop a marketing and processing business in the peanut industry. Rural Development is working with them to develop a business plan.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For the Rural Cooperative Development Grants (RCDG) Program, the fiscal year 2004 budget requests $11 million. Of this amount, up to $1.5 million would be used for projects, which focus on assistance to small minority producers through their cooperative businesses. This program complements our internal National and State Office technical assistance efforts by encouraging the establishment of centers for cooperative development. The centers provide expertise for conducting feasibility analysis, outreach, and other forms of technical assistance for new and existing cooperatives.

The Farm Bill formalized the value-added grant program authorizing $240 million in mandatory funding spread over six years. Over the past two years, 293 grants have been awarded for nearly $57.5 million. This program has four component parts including value-added producer grants, agriculture innovation centers, agricultural marketing resource center, and research on the impact of value-added projects. Eligibility for this grant program was greatly expanded in the Farm Bill and the program encourages applications for grants less than the $500,000 maximum allowed to provide benefits to as many producers as possible.

Five hundred thousand dollars will be used for Cooperative Research Agreement in a competitive program. Cooperative Services will provide a program of research on applied and theoretical cooperative issues affecting agricultural and other rural cooperatives. The use of cooperative agreements requires substantial involvement of our staff with the universities' and non-profits' staff leveraged to conduct the research. Personnel and funds for a competitive program are requested to bring research efforts back up to a level justified by current farm conditions; rapid industrialization, concentration, and integration in production agriculture; quickly evolving information, communications, and biological technologies; and transformation of the social and economic structures of rural areas. Funds are requested in fiscal year 2004 to fund the cooperative agreements with Cooperative Services researchers and operations of the direct cost of conducting the competitive process to be funded out of the Salaries and Expense account.

One example is the Cooperative Development Center at Montana State University-Northern. Since the fall of 2000, the Center has helped to form the Montana Natural Beef (LLC), Amazing Grains Cooperative, Flathead Native Beef Cooperative and Peaks & Prairies Oil Seed Growers Cooperative. Seven other cooperative groups are also receiving assistance. The Center has also conducted workshops on business formation and marketing; provides assistance in specialty food-product development, and facilitates business development through the use of a commercial kitchen.

The Appropriate Technology Transfer for Rural Areas Program (ATTRA) provides technical information to producers and their advisors on the best sustainable production practices. We are requesting $2.0 million for this program. This funding would support responses to over 18,000 direct inquiries from agricultural producers, extension personnel, and others on sustainable practices that reduce dependence on chemicals and is more environmentally friendly. ATTRA funding also supports a website that provides instant information to agricultural producers.

Mr. Chairman, this concludes my testimony for the Rural Development fiscal year 2004 budget for rural business and cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

Senator BENNETT. Thank you very much.

Now we go to Joseph Jen, who is the Under Secretary for Research, Education, and Economics. An economist at one end and an economist at the other end. Maybe that tells us something.

RESEARCH, EDUCATION, AND ECONOMICS

Dr. JEN. Thank you, Mr. Chairman. I am a biochemist by training.

Senator BENNETT. If you are Under Secretary for Economics, you are an economist by definition.

Dr. JEN. I do have an MBA, too, so I do qualify for being an economist. Thank you.

Mr. Chairman, it is my pleasure to appear before you to discuss the fiscal year 2004 budget for the REE mission area agencies. REE consists of ARS, CSREES, ERS, and NASS. The administrators of the agencies are present here today.

Placed in the context of current tight Government spending, the REE budget that we are here to discuss today reflects a strong commitment to addressing the challenges facing our Nation's food and agriculture system. We appreciate your support for the fiscal year 2003 appropriations. The President's fiscal year 2004 budget proposes $2.266 billion for the four REE agencies, about the same as fiscal year 2003 Presidential budget proposal of $2.312 billion.

Science and technology are the foundation of the American food and agricultural systems. The four REE agencies have been central to making the discoveries that have given us the most plentiful, affordable, and safe food supply any nation has ever known.

The environment surrounding the food and agricultural system is in constant flux. Today, our farmers and ranchers and our value-added food industry face stiff competition in worldwide markets. Many countries now spend a much higher percentage of their national research dollars on the food and agricultural system than we do. Constant attention to and investment in food and agricultural research is necessary to maintain our leadership in the world.

The remarkable success enjoyed by the food and agricultural system in this Nation depends heavily on our having a reservoir of basic scientific knowledge. Technology and mission-oriented applied research and problem-solving projects must draw from this reservoir of scientific knowledge. I appreciate very much your support of the USDA flagship grant program, the National Research Initiative, NRI, with an increase of $46 million in the fiscal year 2003 appropriations, raising the total funding level to $166 million. As a competitive grant, the NRI is open to the entire research community and provides the most effective mechanism to attract the best minds in the Nation to work on food and agricultural research and to add to our science knowledge reservoir. For the fiscal year 2004 budget, we propose to increase the NRI to $200 million.

One of the most recent scientific breakthrough areas and one that represents immense opportunities for the food and agricultural sector is genomics research. Genomics is where the 21st century biological science is going.

Through the study of genetic makeup of organisms, genomics links the properties of genes to how plants and animals function.

Both ARS and CSREES have significantly increased their genomics programs in recent years. However, fulfilling the promises of genomics will require additional investments.

In capturing the unique benefits of genomics research and development, USDA has collaborated with other science institutions, both in the United States and abroad. The goal is to achieve direct applications in food and agriculture that would not likely be addressed without USDA participation and targeted funding. USDA has worked closely with the National Science Foundation on the National Plant Genome Initiative and the Microbe Genetic Project. USDA is leading in the coordination of Federal research activities related to domestic animal genomics, including working closely with the National Institutes of Health.

Our work with other agencies in various research areas is indicative of a growing collaboration in which REE agencies are participating. Additionally, the new REE strategic plan asks the four REE agencies to provide increasing research, analytical, statistical, economical, and educational services to other USDA agencies.

The proposed budget provides additional funding for REE agencies to play a major role in strengthening the Nation's biosecurity. The safety of our food and security of our food supply are critical elements of homeland security. Because of its size, complexity, and integration, U.S. agriculture is uniquely vulnerable to highly infectious disease and pests, particularly those diseases not native to the United States.

PREPARED STATEMENTS

With continued investment, REE will be ready to meet the challenges to agriculture and take advantage of the opportunities presented by cutting-edge scientific and technology.

This concludes my statement. Thank you for your attention.

[The statements follow:]

Prepared Statement of Dr. Joseph J. Jen

Mr. Chairman, Members of the Committee, it is my pleasure to appear before you to discuss the fiscal year 2004 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I am accompanied by Dr. Rodney Brown, Deputy Under Secretary of REE and the Administrators of the four agencies: Dr. Edward Knipling, Acting Administrator of the Agricultural Research Service (ARS); Dr. Colien Hefferan, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES); Dr. Susan Offutt, Administrator of the Economic Research Service (ERS); and Mr. Ronald Bosecker, Administrator of the National Agricultural Statistics Service (NASS). Also present is Mr. Dennis Kaplan of the Office of Budget and Program Analysis of the Department. Each Administrator has submitted written testimony for the record.

Placed in the context of current tight government spending, the REE budget that we are here to discuss today reflects a strong commitment to addressing the challenges facing our Nation's food and agricultural system. We appreciate your support in fiscal year 2003 appropriations. The President's fiscal year 2004 budget proposes $2.266 billion for the four REE agencies, about the same as fiscal year 2003 presidential budget proposal of $2.312 billion. The proposed budget requests increases for higher priority programs by reprogramming lower priority programs and eliminating completed tasks.

Science and technology are the foundation of the American food and agricultural system. These four agencies have been central to making the discoveries that have given us the most plentiful, affordable, and safe food supply any nation has ever known. Research investments and scientific advances have caused per acre yields of corn for silage and milk production per dairy cow to more than double in the last half of the 20th Century, while household income devoted to food has dropped from 20.5 to 10.2 percent. It is a phenomenal success story, a story based significantly on REE agencies' research, education, and economic and statistical analysis over the years.

The environment surrounding the food and agricultural system is in constant flux. Today, our farmers and ranchers and our value-added food industry face stiff competition in worldwide markets. Many countries now spend a much higher percentage of their national research dollars on the food and agricultural system than we do. Constant attention to and investment in food and agricultural research is necessary to maintain our leadership in the world.

A recent National Academies report on REE, entitled Frontiers in Agricultural Research—Food, Health, Environment and Communities, states, "Recent scientific breakthroughs will make it easier for agriculture to achieve its potential for delivering a wide array of benefits to society. For this potential to be realized, the agricultural research system must take advantage of new opportunities and relationships. Changing public values and needs will create new market opportunities and will alter agriculture's relationship to the food and fiber system, the environment and the fabric of American society. Research will support agriculture as a positive economic, social, and environmental force and will help the sector to fulfill ever-evolving demands."

The remarkable success enjoyed by the food and agricultural system in this Nation depends heavily on our having a reservoir of basic scientific knowledge. Technology and mission-oriented applied research and problem solving projects must draw from this reservoir of scientific knowledge. I appreciate very much your support of the USDA flagship grant program, the National Research Initiative (NRI) with a significant increase of $46 million in the fiscal year 2003 appropriations, raising the total funding level to $166 million. However, the NRI funding level is still only one third of the authorized level of $500 million. As a competitive program, the NRI is open to the entire research community and provides the most effective mechanism to attract the best minds in the nation to work on food and agricultural research, and to add to our science knowledge reservoir. For the fiscal year 2004 budget, we propose to increase the NRI to $200 million.

One of the most recent scientific breakthrough areas and one that represents immense opportunities for the food and agriculture sector is genomics research. Genomics is where 21st century biological science is going. Genomics and biotechnology provide powerful tools to address many of the thorny problems that have challenged production agriculture for years. Called the "high speed biology," genomics permits rapid understanding and careful use of desired traits in microbes, plants, and animals. Where previously scientists worked at the cellular level, they can now work at the molecular-level. Genomics also adds to the basic science knowledge reservoir. As has been demonstrated in the study of the human genome, studying the metabolic pathways dictated by genetic sequences can lead to new knowledge that has unanticipated beneficial applications.

Through the study of the genetic makeup of organisms, genomics links the properties of genes to how plants and animals function. For example, genomics can:

—Eliminate the production of fungal toxins such as aflatoxin.

—Prevent diseases in animals exposed to pathogens, such as foot and mouth disease.

—Uniformly and reliably produce desirable nutritional characteristics in commodities such as golden rice, which contains high vitamin A and iron levels.

—Develop rapid accurate diagnostic tools for monitoring and detecting animal and plant pathogens, such as Listeria.

—Make production friendlier to the environment, tapping into the natural defensive resources of agricultural plants and animals.

—Reduce or eliminate the use of many agricultural chemicals and antibiotics and make the food products that consumers want.

"Molecular-level understanding of life processes" is one of six public research and development priorities set out in the fiscal year 2004 budget memorandum from the Directors of the White House Offices of Science and Technology Policy and Management and Budget. In particular, the Directors note that "new applications in health care, agriculture, energy, and environmental management," justify genomics as a priority. Agriculture lags behind the medical, energy-related, and non-agricultural basic sciences in making investments in this area. To be a world leader in agricultural genomics, USDA requires a sustained investment to engage in genomics research and to cooperate with other federal agencies.

Both ARS and CSREES have significantly increased their genomics programs in recent years. However, fulfilling the promises of genomics will require additional investments. The President's fiscal year 2004 budget provides increases of $13 million in ARS's agricultural genome budget and $10 million in CSREES' NRI to strengthen both agencies' genomics programs. An increase of $1.1 million in the ERS' budget will provide economic data and analysis that complements collateral biological and bioinformatics research, and serves as the basis for policy decisions arising from rapid genomics-based development in food and agriculture.

In capturing the unique benefits of genomics research and development, USDA has collaborated with other science institutions, both in the United States and abroad. The goal is to achieve direct applications in food and agriculture that would not likely be addressed without USDA participation and targeted funding. USDA has worked closely with the National Science Foundation on the National Plant Genome Initiative and the Microbe Project. USDA is leading in the coordination of federal research activities related to Domestic Animal Genomics, including working closely with the National Institutes of Health.

Our work with other agencies in various research areas is indicative of the growing collaborations in which REE agencies are participating. The REE agencies are working with the National Aeronautics and Space Administration on remote sensing, with the Food and Drug Administration and the Centers for Disease Control on food safety, with the Environmental Protection Agency on implementation of the Food Quality Protection Act, and with the Department of Defense and Department of Energy on biobased products and bioenergy research. Additionally, the new REE strategic plan asks the four REE agencies to provide increasing research, analytical, statistical, and educational services to other USDA agencies.

The proposed budget provides additional funding for REE agencies to play a major role in strengthening the Nation's biosecurity. The safety of our food and security of our food supply are critical elements of homeland security. The budget provides ARS $11.5 million for biosecurity research with an additional amount for related research on emerging diseases that may be accidentally or intentionally introduced into the food system. Because of its size, complexity, and integration, U.S. agriculture is uniquely vulnerable to highly infectious diseases and pests, particularly diseases not endemic to the United States. Working cooperatively with APHIS, the budget provides CSREES with $16 million to maintain a unified Federal-State network of public agricultural institutions to identify and rapidly respond to high-risk biological pathogen outbreaks in the food and agricultural system. Funding of $1 million will support ERS' effort to improve and maintain a security analysis system initiated with supplemental Homeland Security funds. Finally, the President's fiscal year 2004 provides ARS with $22 million to finance additional security assessments and implement security countermeasures at ARS research laboratories.

Scientific and professional human capital is one of the most crucial variables affecting the future of our food and agriculture system. Increases in the budget supporting the research component of REE are complemented with increases in education, a critical function of REE. The President's budget provides an increase of $1.9 million for two higher education programs, Institution Challenge Grants to enhance institutional capacity and Graduate Fellowship Grants for the development of expertise. The budget also proposes funds for a program to further incorporate an international component into teaching, research, and extension programs at land-grant institutions.

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—The Agricultural Research Service fiscal year 2004 budget requests slightly over $1 billion in ongoing research and information programs and facilities. Within the total, the budget proposes increases dedicated toward higher priority program initiatives of national and regional importance, several of which I previously described. Offsetting these increases, the budget proposes redirection or termination of approximately $149 million in current programs. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a critical role for the Department and the larger agricultural community in conducting both basic and mission-oriented research. Results from ARS' basic research provide the foundation for applied research carried out by ARS, academic institutions and private industry. ARS' applied research and technology development address the research needs of other USDA agencies, as well as of those engaged in the food and agriculture sector.

Agriculture is vulnerable to changes in climate. Rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events like drought and floods are predicted to accompany the intensification of the greenhouse effect. While vulnerable to these environmental changes, agriculture also offers significant opportunities to mitigate the increase in greenhouse gases in the atmosphere. An increase of $6.3 million in the President's budget for climate change will support research providing information on balancing carbon storage and agricultural productivity in different agricultural systems across the Nation.

The Abraham Lincoln National Agricultural Library (NAL), one of four national libraries, serves as a national resource for information on food and agricultural sciences. The proposed increase will enhance NAL's information technologies, increase the volume and quality of information available, reduce the cost of information and services, and develop specialized collections. This will include the first steps towards developing a National Digital Library for Agriculture in partnership with the land grant universities, to improve NAL's worldwide customers' access to key digital agricultural information. The President's budget also provides $2 million to continue a multi-year plan to address major facility deficiencies.

As discussed above, the budget also proposes $22 million for security needs at ARS research laboratories.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2004 budget provides just over $1 billion for the Cooperative State Research, Education, and Extension Service. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology and the transfer of that knowledge and technology to stakeholders. Within the discretionary budget, the funding levels for the six formula programs are slightly higher than the fiscal year 2003 appropriations, due principally to restoration of the across-the-board cuts in fiscal year 2003.

In addition to the increases in the NRI and higher education programs described above, the CSREES budget includes increases to enhance the agency's capacity to serve its grantees through developing a new electronic grants application and reporting system and continuing the design and development of the Research, Education, and Economics Information system.

The Government Paperwork Elimination Act (GPEA) mandates that electronic submission, maintenance or dissemination of information be available as a substitute for paper. GPEA has significant implications for the agency's management of its grant-making programs. The budget maintains support for CSREES's activities related to GPEA and eGovernment.

Economic Research Service.—The Economic Research Service is provided $76.7 million in the President's fiscal year 2004 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety and human nutrition, the environment, and rural development. In addition to the increases described above in genomics and homeland security, the budget includes $9 million to fund ERS' Food Assistance and Nutrition Research Program. In light of the President's Initiative on "Healthier America" and the current obesity epidemic, data on consumer nutrition status is critically needed to serve the Nation.

National Agricultural Statistics Service.—The National Agricultural Statistics Service budget requests $136.2 million, a decrease of $2.3 million over the fiscal year 2003 Act. NASS's comprehensive, reliable, and timely data are critical for policy decisions and to keep agricultural markets stable, and to ensure a level playing field for all users of agricultural statistics. The President's budget provides increases in several critical areas of the NASS program, as well as a decrease of approximately $16 millions in the Census of Agriculture, which reflects normal changes in the Census cycle.

An increase of $4.8 million will be directed at restoring and modernizing the core survey and estimation program to meet the needs of data users at an improved level of precision. This program has not received an increase in funding since 1990, leading to a reduction in the quality of survey data on which estimates are based. Another increase of $1.6 million will incrementally improve statistically defensible survey precision for small area statistics that are widely used by USDA agencies, such as the Risk Management Agency for indemnity calculations.

To minimize respondent burden, NASS is committed to developing a system that will allow producers and agri-businesses the option of electronically filling out and submitting surveys, as mandated by the GPEA. To that end, the budget requests $3.25 million for NASS's electronic data reporting initiative. By 2006, most NASS self-administered surveys will be available electronically and it is anticipated that the 2007 Census of Agriculture will be electronically collected.

SUMMARY

In summary, I want to reiterate that, given current budget constraints, the REE agencies' budgets present a balanced portfolio, with investments in cutting edge research such as genomics and in application of the research findings to such issues as biosecurity and food safety pathogens. The budget also provides new funding in education to ensure that the Nation has a strong cadre of professionals in the food and agricultural system. In addition, it recognizes that statistics and economic analysis are critical for informed decision making for all parties involved in the system. With these continued investments, REE will be ready to meet the challenges to agriculture and take advantage of the opportunities presented by cutting-edge science and technology. This concludes my statement. Thank you for your attention.

PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, ACTING ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2004. The President's fiscal year 2004 budget request for ARS Salaries and Expenses is $987,303,000. This represents a net decrease of $58.6 million from the fiscal year 2003 adjusted appropriation level. This net decrease results from program additions and reductions, and increases for pay and operating costs. The fiscal year 2004 budget also proposes $24,000,000 for the ARS Buildings and Facilities account. Also included in the President's budget is the proposed transfer in appropriations from ARS to support activities included in the budget for the Department of Homeland Security (DHS).

PROPOSED PROGRAM INCREASES

The fiscal year 2004 President's budget funds a number of new and expanded priority research initiatives as follows:

Emerging Diseases of Plants and Animals ($12,100,000).—Emerging diseases are caused by previously unidentified pathogens or new manifestations of "old" diseases. Reemerging diseases occur after long quiescent periods or upon the introduction of a new pathogen into a native plant/animal population in a new geographical area. The globalization of trade, increased international travel of people and movement of goods, changing weather patterns, genetic shifts in pathogen populations, and changes in crop management practices all provide opportunities for the emergence or reemergence and spread of plant and animal diseases. ARS will use the proposed increase to develop sensitive diagnostic tests and vaccines to control exotic diseases. Prevention and control strategies will be developed for porcine reproductive respiratory syndrome, bovine spongiform encephalopathy, and Marek's disease (in chickens). Research will also be conducted on emerging and exotic plant diseases to minimize or prevent their establishment in the United States.

Sequencing and Bioinformatics ($12,887,000).—The Nation's agricultural system today faces formidable challenges including new pests and pathogens from water and soil pollution, environmental regulations, and the extinction or inaccessibility of genetic resources. Genomics and biotechnology are critically important for maintaining and enhancing the production, quality, and safety of plant- and animal-based food products.

With the proposed increase, ARS will identify the genes that influence disease resistance, reproduction, nutrition, and other economically important production traits in livestock and poultry. Research will identify the genes in Texas cattle fever tick that contribute to acaracide resistance and host function for babesiosis. In addition, research will identify and utilize genes and gene products that influence economically important traits in plants.

Biosecurity Research ($11,500,000).—The General Accounting Office (GAO) has reported that certain countries are developing biological warfare agents directed at animal and plant agriculture. The GAO indicates that U.S. agriculture is a potential target. Disease outbreaks from a malicious introduction of pathogens could have profound impacts on the national infrastructure, the domestic economy, and export markets. Disease pathogens that could be used to debilitate U.S. agriculture include highly infectious viruses, bacteria, nematodes, fungi, and insects that attack major commodities, such as cattle, swine, poultry, cereals, vegetables, and fruits. With the proposed increase, ARS will develop more rapid and sensitive onsite pathogen detection and identification tests for animal pathogens. Also, ARS will develop a genomic analytic sequencing capability which will assist in determining threatening diseases'/pathogens' geographic origin and potential for spread.

Biotechnology Risk Assessment ($3,725,000).—The National Academy of Sciences has identified several areas that need further study, such as, the characteristics of genetically engineered crops and the long term ecological impacts of these crops; the effects of genetically modified organisms on non-target organisms; and the gene spread from crops to surrounding vegetation. ARS will use the proposed increase to: determine the rates of gene flow, including transgenes, from crops to nearby vegetation; develop and test novel strategies to prevent pest populations from becoming resistant to plant incorporated protectants; and identify and develop gene technology that will limit transgene activity to specific tissues.

Invasive Species ($4,202,000).—Invasive insects, weeds, and other pests cost the Nation well over $137 billion each year. Weeds, including leafy spurge, melaleuca, salt cedar, water hyacinth, purple loosestrife, and jointed goat grass, currently infest at least 100 million acres in the United States. They reduce crop yields by approximately 12 percent and forage yields by 20 percent. Arthropods (insects and mites), such as the glassy-winged sharpshooter, silverleaf whitefly, Asian longhorned beetle, pink hibiscus mealybug, Russian wheat aphid, and Chinese soybean aphid, destroy 13 percent of crop production each year. With the proposed increased, ARS will perform research to develop attractants and biological control technologies for managing invasive insects/weeds. Research will also be conducted on the relationship of major invasive insects and their natural enemies.

Agricultural Genetic Resources ($3,000,000).—Present support of the germplasm program is inadequate to prevent the risk of extinction and loss of genetic diversity. With the availability of new genomic tools, genetic diversity is extremely valuable for improving production. ARS will use the proposed increase to collect, identify, characterize, and maintain germplasm in centralized gene banks. ARS will also encourage germplasm exchange and distribute research quantities of healthy, pure, and adequately characterized germplasm.

Managing Wastes to Enhance Air and Water Quality ($2,425,000).—The management of waste has become increasingly important because of its far-reaching impacts. Properly managed it can be used to improve soil properties, as a nutrient source for crops, and for alternative uses, such as energy production. Improperly used, the waste from 280,000 animal feeding operations around the country poses a threat to soil, water, and air quality, and human and animal health. With the proposed increase, ARS will continue to develop cost effective technologies and management practices which enable producers to capture the value of manure and other byproducts without degrading environmental quality or posing a threat to human and animal health.

Biobased Products and Bioenergy from Agricultural Commodities ($6,400,000).—Widely fluctuating energy prices and depressed agricultural commodity prices have contributed to a renewed emphasis on expanding the use of biobased industrial products (including fuels) to improve the Nation's energy security, balance of payments, environment, and rural economy. By expanding the development of biobased products and bioenergy, increased demand will be created for agricultural commodities to strengthen farm product prices and raise farm income; new opportunities will be provided for business development and employment growth in rural America; dependence on imported oil will be reduced and U.S. security enhanced; and environmental quality will be improved by reducing air pollution and greenhouse gas emissions. With the proposed increase, ARS will improve the quality and quantity of agricultural biomass feedstock for production of energy and biobased products. The conversion of agricultural materials and wastes to biofuels will be improved. In addition, technologies will be developed to produce biobased products from agricultural commodities and byproducts.

Climate Change Research and Technology Initiatives ($6,300,000).—Climate change encompasses global and regional changes in the Earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate or adapt to climate change. ARS has research programs on carbon cycle/storage, trace gases (methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Research will include land use and land management impacts on carbon sequestration; measurement, verification, and modeling of carbon storage; and assessing and managing risks to agricultural production and water supplies from weather variability.

Agricultural Information Services ($2,000,000).—ARS will use the proposed increase to begin implementation of the digital library initiatives recommended by the 2001 Interagency Panel for Assessment of the National Agricultural Library. These initiatives will provide improved access to electronic resources, delivery of digital information to USDA customers, and archiving of USDA digital publications. The development of information technology to manage and deliver information will also be continued.

Information Technology Cyber Security ($3,000,000).—Information technology is critical for the delivery of ARS' research programs. The use of web-based technology commonly referred to as "e-Government," offers ARS the opportunity to improve the way it conducts business and exchanges information in achieving its research mission and objectives. As technology has enhanced the ability to share information instantaneously, it has also made ARS more vulnerable to cyber security attacks.

ARS' mission critical information systems and networks are now exposed to an unprecedented level of risk. Of particular importance is the safety of pathogenic, genomic, and sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected/undetected cyber links. ARS will use the proposed increase to increase the number of cyber security officers and improve and enhance cyber security tools, training and management plans. In addition, ARS' servers will be streamlined and centralized.

PROPOSED OPERATING COSTS

In addition to the requested program initiatives, the budget provides funding to cover costs associated with pay raises effective in fiscal years 2002, 2003, and 2004. These funds, $31,567,000, are critically needed to avoid Agencywide erosion of base resources. The absorption of these costs would reduce the number of essential scientists and support staff needed to conduct the Nation's Federal agricultural research program. The absorption reduces funds available for costly laboratory equipment, materials, and extramural support essential to these programs.

PROPOSED PROGRAM DECREASES

The President's budget for fiscal year 2004 addresses a number of national needs and Administration priorities. Two issues of major concern to the President and the American people are national defense and domestic security. In this regard, the Department of Agriculture and ARS, along with most other Federal departments and agencies, are seeking a slower rate of growth to accommodate the more urgent needs facing the Country. Furthermore, as a result of additional emergency spending in fiscal year 2002 and fiscal year 2003, higher deficit spending is projected this year and in fiscal year 2004, requiring governmentwide fiscal belt-tightening and the imposition of budget constraints to curtail spending.

For these reasons the President's fiscal year 2004 budget proposes decreases in funds supporting ongoing programs in ARS. The program decreases recommended in the budget amount to $137,006,000. Approximately 96 percent of this reduction is derived from Congressionally-designated earmarks appropriated in fiscal years 2001, 2002, and 2003. While these projects are considered to be important, they are less critical under the current fiscal and economic climate. The limited resources that are available are needed for higher priority initiatives. The Department is also proposing the termination of research currently carried out at Brawley, California; the Biotechnology Research and Development Corporation, Peoria, Illinois; and the Animal Health Consortium, Peoria, Illinois. The Department is also projecting savings associated with program and management efficiencies to be derived from enhanced information technology capabilities. The ARS budget also identifies resources from a number of research projects that will be redirected to meet higher priority research initiatives that target biosecurity, sequencing and bioinformatics, emerging and exotic diseases of plants and animals, and global climate change.

TRANSFER TO THE DEPARTMENT OF HOMELAND SECURITY

The Agency's budget reflects a decrease of $9.1 million. These funds finance the operating costs and half the research program currently conducted at the Plum Island Animal Disease Center, Greenport, New York. These funds will appear in the DHS budget.

PROPOSED INCREASES FOR BUILDINGS AND FACILITIES

The fiscal year 2004 budget recommends an increase of $24 million for ARS' Buildings and Facilities account. Most of this increase is for security at ARS' laboratories. Many of the Agency's laboratories are highly vulnerable to a terrorist attack.

In the aftermath of the September 11, 2001 terrorist attack, Congress provided supplemental funds to USDA to conduct security assessments and begin to upgrade security at all of its research laboratories. ARS has laboratories located at more than 100 sites throughout the United States and overseas. ARS laboratories which were most at risk—i.e., the agency's five containment laboratories at Plum Island, New York; Ames, Iowa; Laramie, Wyoming; Athens, Georgia; and Frederick, Maryland—had security assessments conducted in fiscal year 2002. The assessments identified possible threats and risks to known assets, and recommended countermeasures. ARS has initiated security measures at 24 research locations including all BSL–3 and BSL–2 facilities with inventories of select agents. Other security measures include background investigations, additional security guards, access control systems, etc. The proposed increase in fiscal year 2004 will be used to finance additional security assessments and implement security countermeasures at ARS locations on a priority basis.

The National Agricultural Library is one of four national libraries and the largest agricultural library in the world. The library houses a collection of more than 3.2 million items in 50 different languages. It serves as a national resource for information on agriculture and related services. Constructed in 1968, NAL's building requires major renovation. Since fiscal year 1998, ARS has received funds for renovation of the library's first floor and other floors and systems. In fiscal year 2004, ARS is requesting $2 million to continue addressing the major facility deficiencies.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to submit the proposed fiscal year 2004 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2004 budget proposal is just over $1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, and higher education programs. This partnership has a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The broad portfolio of CSREES programs has supported scientific discovery from idea to application. Formula funds have leveraged dollars from other sources, provided the start-up funds needed for an investigator to establish a research program and build the capacity to compete successfully in a competitive program, and allowed for a rapid response to emerging problems. Competitively funded research from the National Research Initiative (NRI) has supported individual investigators undertaking basic research aimed at generating new knowledge. Research results are applied to real life problems through the Cooperative Extension System's educational efforts. Because these efforts occur primarily at universities, they contribute to an environment that prepares students to meet the ongoing needs of agriculture, the environment, human health and well-being, and communities.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through our competitive programs such as the NRI and Integrated Programs. Funding for agricultural research, particularly that pursued at university campuses, has dramatically lagged behind funding for other disciplines. The $46 million increase in fiscal year 2003 for the NRI was a step in reaching the full authorization level for the NRI. The fiscal year 2004 budget request of $200 million is based on the same underlying policy objectives, but in a way that is consistent with increasing overall constraints on the Department's budget. The NRI will continue to support current high priority programs with an emphasis on critical areas. Increased partnerships with other Federal agencies on research topics of mutual interest will be possible. For example, we will be able to expand working relationships with the National Science Foundation and Department of Energy on research of the rice genome. The current contribution of this partnership has led to a high quality "draft" sequence of the rice genome several years ahead of schedule. The "draft" sequence is providing valuable information for researchers studying rice and other cereals and, through genomics technology and plant breeding, will lead to improved cereal productivity, quality, and nutritional value. With sequencing complete, it is anticipated that this collaborative work will continue in developing a functional genomics program for rice to associate sequence information with pathways or networks of genes with the goal of increasing our knowledge of disease resistance, nutritional qualities, growth and development, fiber quality, oil content and other agriculturally important traits of rice. The fiscal year 2004 budget request continues support of genomics with a $10 million increase in animal genomics. NRI funds will be used to strengthen agricultural research at small and mid-sized institutions and in States that are less successful in the competitive grants arena. Innovative multidisciplinary research training will be provided for agriculture's future scientists in emerging areas such as agricultural biotechnology, agricultural bioinformatics and functional foods. The quality of science will increase as more of the best and brightest scientists from all areas of the United States, and all institutions, submit proposals to the NRI on critical issues such as emerging diseases of plants and animals, biosecurity, air quality and food and nutrition.

CSREES is uniquely positioned to address research, education, and extension needs to meet the challenges to U.S. agriculture from new and emerging pests and diseases. Partnering with the University System, CSREES programs support a vast wealth of expertise in all fields of plant and animal sciences along with an immense extension and outreach capability that can be mobilized to provide an immediate response to critical issues. Program efforts will focus on early intervention strategies to prevent, manage or eradicate new and emerging plant and animal disease. Funding also will facilitate rapid response to the need for improved diagnostic tests for emerging disease agents by building on the expanding knowledge base of microbial genomics for both animal and plant diseases. The $2 million increase in the Critical Issues Program will be used to address emerging plant and animal diseases and pests such as the Southern pine beetle which is spreading rapidly across the Southern United States, work on resistant strain genetics for karnal bunt, Circovirus of swine which causes a multisystemic disease in piglets, and chronic wasting disease which is now a major wildlife health crisis in several States, and may be a vector for human health concerns.

In continuing our efforts for agricultural security, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The core of the network is currently comprised of 5 hub animal diagnostic laboratories, 7 satellite animal diagnostic laboratories, and 5 plant diagnostic laboratories dispersed strategically around the country. The hub laboratories are responsible for deploying standardized diagnostic approaches for identification of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. The hub laboratories also serve as the repository for storing records of typical endemic and chronic pest and disease problems from the other diagnostic laboratories in their region. The budget proposal requests $16 million to maintain the national diagnostic laboratory network.

Sustained support through our formula programs is providing the foundation for the Federal/State partnership that links science and technology development directly to the needs and interests of people. The formula programs provide discretionary resources that foster regional and national joint planning, encourage multistate planning and program execution, and minimize duplication of efforts. Formula funding is the foundation from which a competitive grant funded program can be built by developing institutional infrastructure, supporting preliminary studies to strengthen competitive proposals and bridging gaps related to scope and continuity of grant supported programs. These funds, along with matching funds from the States, assure responsiveness to emerging issues such as foot-and-mouth disease, E. coli, Salmonella, Listeria, sorghum ergot, potato late blight, Russian wheat aphid, and swine waste. Formula funds also build and maintain a national base of scientists and extension educators who can quickly and effectively mobilize to address these types of critical issues. For example, the Nevada Cooperative Extension is increasing public awareness and education to motivate people to report infestations of tall whitetop, an invasive weed. The noxious weed looks like a delicate, harmless flower, but it is threatening water quality, wildlife habitat, and the economic stability of ranchers and farmers. Extension efforts in informing land-owners of the negative impacts of tall whitetop is a major step in controlling and eradicating the weed and preserving thousands of acres of Nevada's lands and waterways. Other important initiatives formula funds will be used to address include: financial security, child care, health, entrepreneurship, aquaculture and hydroponics, community revitalization, youth and youth-at-risk, and water management. In addition, formula funding supports training of future scientists and educators. Formula funds provide a platform to partner with other Federal, State, and county organizations for providing leadership, research, information, and education to meet the challenges facing communities.

CSREES continues to expand diversity and opportunity with activities under 1890 formula and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. Funding for our 1890 formula programs provides a stable level of support for implementation of research and extension programming. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Sustained funding for the Hispanic-Serving Institutions promotes and increases the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational program development rapidly delivers new technologies, of all kinds, into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will more effectively reach under-served communities through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). Responsibility for this program was transferred to CSREES in fiscal year 2003 to award competitive multi-year projects to support disadvantaged farmers and ranchers. Increased funding for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs.

The higher education programs respond to the development of human capacity and the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2004 budget provides a $1.7 million increase in CSREES higher education programs for the Food and Agricultural Sciences National Needs Graduate Fellowship and Tribal Education Equity and Endowment programs. The International Science and Education Grants program (ISEP) will support the land-grant community and other campuses in their efforts to be globally competitive by internationalizing their agricultural programs. ISEP is designed to assist land-grant and other campus faculty in bringing world issues and awareness into their agricultural teaching, research, and outreach programs. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expanding their programs.

Within the fiscal year 2004 budget request, is a proposed increase of $2.3 million for the Expanded Food and Nutrition Education Program (EFNEP). This reflects the Administration's support for strong nutrition programs for a healthier America. The EFNEP program reaches low income youth and families, with a heavy focus on the minority population, with nutrition education that leads to sustainable behavior change. Since the requested level exceeds that of the 1995 level, 1890 Institutions will be eligible to receive funding under EFNEP, which reflects the Agency's commitment to more successfully reach minorities. Increased funding also will allow EFNEP to add a physical activity focus to help combat the rising problem of obesity in children and adults.

The Administration strongly believes that peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that are not national. In order to ensure the highest quality research for these national needs within available funding, the fiscal year 2004 budget has therefore proposed to eliminate earmark projects.

In response to the university community's strong desire for Federal research agencies to support electronic grant activities, CSREES is committed to streamlining its grant award process and requests continued support in the fiscal year 2004 budget for this effort. Through participation in the development of a common Federal electronic application and reporting system, CSREES is implementing the capability to electronically receive and process the approximately 6,000 proposals submitted to the agency which will result in electronically awarding about 2,000 grants and cooperative agreements annually. The system also includes electronic distribution to reviewers nationwide, and support for electronic financial and technical reporting on awards. CSREES is examining how it can leverage its partnership with the land-grant university system to result in better access of research, education, and extension information products useful to the Nation as a whole. This concept, which has been termed e-Extension, could significantly extend the ability of these universities and the Department to provide synthesized and meaningful information to the public.

CSREES, in collaboration with university and other partners, nationwide, continually meets the many challenges facing the food and fiber system. The programs administered by the agency reflect the commitment of the Administration to further strengthen the problem-solving capacity of Federally-supported agricultural research, extension, and higher education programs. In addition, we continue to enhance our responsiveness and flexibility in addressing critical agricultural issues.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2004 budget for the Economic Research Service (ERS).

Mission

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

Budget

The Agency's request for 2004 is $76.7 million, which includes increases for two initiatives and pay costs. The Agency is requesting a $1.1 million increase to strengthen the economic information and analytical bases for genomics research, application, and education program decisions; and a $1 million increase for developing the Security Analysis System for U.S. agriculture (SASUSA).

ERS Contributions to Mission Area Goals

ERS shares five general goals with its fellow agencies in the Research, Education, and Economics (REE) mission area: (1) a highly competitive agricultural production system, (2) a safe and secure food supply, (3) a healthy and well nourished population, (4) harmony between agriculture and the environment, and (5) enhanced economic opportunity and quality of life for all Americans. These goals are fully consistent with the U.S. Department of Agriculture mission.

Goal 1.—The U.S. agricultural production system is highly competitive in the global economy.

ERS helps the U.S. food and agriculture sector adapt to changing market structure in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets and the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessments of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. Policy makers and the food and agriculture industry benefit from research contained in reports such as China's Food and Agriculture: Issues for the 21st Century (March 2002) that analyze driving forces in global markets, in this case the factors underlying China's potential as a growing market and competitor; and Vertical Coordination of Marketing Systems: Lessons from the Poultry, Egg and Pork Industries (May 2002) that analyze the economic forces leading to closer coordination of economic activity across the food marketing chain and measure the consumer benefits.

ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of the United States and world agricultural production, consumption, and trade. In.2003, several initiatives will increase the accessibility, timeliness and breadth of the data and analysis. We are creating dynamic outlook pages that offer the latest outlook information, data, and links through a central location on the ERS website—In addition, USDA's agricultural baseline projections will be available on a more timely basis through the release of components as they are completed. ERS continues to work closely with the WAOB and other USDA agencies in developing a "commodity centers of excellence" initiative that would provide "one-stop shopping" for key USDA data. The breadth of data was expanded in 2002 when ERS launched a unique data series of average monthly retail prices for red meat and poultry based on electronic supermarket scanner data.

ERS continues to expand research on how the dynamics of consumer demand, notably growing consumption and trade in high value products, are shaping global markets. To date in 2003, ERS has organized workshops on global markets for high-value foods and specialized markets for grains. These workshops brought together international experts on the food system to discuss the economic implications of the growing importance of high value products and trade for the food and agricultural sector. A report analyzing the forces shaping trade in high value products will be released in 2003. These activities enhance our analytic understanding of these fundamental market relationships and continue to improve the analytical base for USDA's foreign market analysis and projections activity.

ERS continues to conduct research to improve understanding among decision makers of changes in the agricultural sector structure (for example, the implications for producers of the increasing replacement of open markets by contractual arrangements and vertical integration). ERS is currently examining the potential efficiency-enhancing motives for the increasing use of contracts by food manufacturers and processors. ERS released two reports, A Comparison of Vertical Coordination in the U.S. Poultry, Egg, and Pork Industries (2002) and Vertical Coordination of Marketing Systems: Lessons from the Poultry, Egg, and Pork Industries (2002 which concluded that vertical coordination and integration of marketing systems are designed primarily to help meet the quality standards of today's consumers. Hog production, highlighted in Economic and Structural Relationships in U.S. Hog Production (AER–818), provides a good example of how economic factors can change animal industry structure and practices, and how these changes might affect the environment. Following up on the 2001 reports, Concentration and Technology in Agricultural Input Industries and Public Sector Plant Breeding in a Privatizing World, ERS will publish The Seed Industry in U.S. Agriculture in 2003. This report reviews the factors affecting seed production, consumption, and seed markets, and summarizes the regulatory policy, including the intellectual property rights (IPR) relating to new plant varieties, the role of public and private R&D expenditures in plant breeding for U.S. agriculture, and the influence of concentration on market power and cost efficiency in the seed industry. At the farm level, the 2003 Family Farm Report—Structural and Financial Characteristics of U.S. Farms, which will be published later this year, documents the ongoing changes in farms' structure, financial performance, and business relationships in response to consumer demands, competitive pressures, and changing opportunities for farm families.

ERS analysis has supported implementation of the 2002 Farm Security and Rural Investment (FSRI) Act, and our ongoing research will provide objective analysis of the impacts of specific programs. Less than one week after passage of the new farm bill, ERS posted an extensive, provision-by-provision, "side-by-side" comparison of previous and new legislation that quickly became the most popular product ever posted on the ERS website. We also had major input into the analysis of the new farm bill for USDA's official impact analysis. This assessment provided the groundwork for an ERS report, The 2002 Farm Act: Provisions and Implications for Commodity Markets that analyzes the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years.

In addition, ERS will continue to work closely with the Foreign Agricultural Service and the Office of the U.S. Trade Representative to ensure that ongoing negotiations in the Doha Development Agenda under the auspices of the World Trade Organization and regional trade agreements are successful and advantageous for U.S. agriculture. In the negotiations, the U.S. seeks to minimize farm trade distortions while maintaining some level of domestic support. Central to a successful agreement is domestic and international consensus on the trade distorting impacts of various types of domestic agricultural policies, and a recent ERS publication is the first output from ongoing research on the potential distortions caused by U.S. policies. The report, Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture, released in February 2002, analyzes the production and trade impacts of the Production Flexibility Contract (PFC) payments enacted under the 1996 Farm Act. Using the data on farm households from the Agricultural Resource Management Survey (ARMS), the report provides the first data-based analysis of direct payments, and finds little evidence that the PFC payments distorted markets.

ERS analysis of global food security continues to be used by USDA, the Agency for International Development, and the Department of State in decisions about food aid. The analysis also supports decision-making to meet U.S. commitments to the World Food Summit, where 186 countries, including the United States, committed themselves to reducing the number of undernourished people by half by 2015. In June 2002, the Secretary of Agriculture joined Ministers and Heads of State from other countries to examine progress in meeting the goal. ERS analysis informed the delegation and was included in the official documents distributed on a CD to all participants. Included were ERS reports, Food Security Assessment 2001 and Issues in Food Security, that provide projections of future levels of food security for 67 low income countries and an analysis of the determinants of food security.

Food price determination is increasingly important for understanding domestic and international market events and opportunities that promote the security of the U.S. food supply. ERS systematically examines the factors that help set retail prices, including an assessment of the roles of the transportation, processing, manufacturing, wholesaling and retailing sectors; the impact of imparts and exports; and linkages to the total economy. Also, ERS recently improved estimates of farm-to-retail price spreads to allow for a direct link between the demand for diverse products associated with today's modern food markets and the demand for marketing services.

ERS analyses can help guide and evaluate resource allocation and management of public sector agricultural research—a key to maintaining increases in productivity that underlie a strong competitive position for U.S. farmers. ERS continues to study the economics of adopting genetically modified seed, the role of patents and intellectual property rights in fostering innovation, and the potential for technology transfer to less developed countries.

Seed genetically engineered to control insects and weeds, initially introduced in 1995, now accounts for nearly 70 percent of U.S. soybean plantings and nearly half of major crop acreage (corn, soybeans, and cotton). ERS tracked the introduction of biotechnology into the agricultural production mainstream, published the first national data on adoption, and documented the impacts of adopting the technology on crop yield, pesticide use, production costs, and profits. The report, Adoption of Bioengineered Crops, issued in May 2002, examined the adoption pattern of bioengineered crops with input traits for pest management, and the farmlevel impacts of adopting bioengineered crops. Data from the ARMS were essential in completing this study.

In a related report due out in 2003, ERS estimates the total benefits from bioengineered crop adoption, and their distribution between producers, biotech companies, consumers, and other stakeholders. In addition to biotech crops that already have a significant market share, ERS has examined the economics of emerging biotech crops, such as wheat. Biotech marketing issues have not been neglected, including estimating the costs of segregating biotech crops, the ramifications of differing consumer preferences and national biotech policies on trade flows, the role of the Government in facilitating market differentiation, and the economics of food labeling. ERS has also examined consumer attitudes toward biotechnology and the role of consumer preferences in shaping market trends. Research anticipating the next wave of biotechnology products for crops modified to target consumer needs, such as food with altered nutritional qualities (such as canola with high beta-carotene content), crops with improved processing characteristics (such as naturally-colored cotton), or plants that produce specialty chemicals or pharmaceuticals (such as rabies vaccine in corn), is also being undertaken. This sound research base has been invaluable in tempering exaggerated claims of costs and benefits from both sides of the debate.

Recent innovations in agricultural biotechnology have raised significant policy questions concerning potential research delays, the optimal intellectual property design for maximizing dynamic innovation when innovation is sequential, and the potential effects of concentration of research and market power in the agricultural inputs industry. In cooperation with researchers at Rutgers University and the U.S. Patent Office, ERS is creating a classification system and on-line searchable database of agricultural biotechnology patents and licensing arrangements. This project will also identify who generates the innovations, who controls the innovations and, to the extent possible, who has access to the innovations.

ERS helped the Secretary develop a presentation on the role of technology transfer in 21st Century agricultural trade for the 5th Quint Agricultural Ministerial meetings in Nara, Japan, in July, 2002. The thrust of the presentation was that research and development of agricultural technologies in developed countries can help developing countries strengthen their agricultural markets, eventually becoming better customers for U.S. farm exports. The presentation, and the research behind it, were highlighted in an organized symposium at the American Agricultural Economics Association (AAEA) meetings in 2002 and are featured on the ERS website. The thesis is the rationale for an international trade and technology exposition planned by the Secretary in 2003.

ARMS data underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS's research. In 2002, the popular farm financial management dataset, providing more than 5,000 tables covering farm businesses and the ERS farm typology for farms of all sizes and types across 9 ERS farm resource regions, was updated with 2001 data. Less well-known are the ARMS data on crop production practices, made available in 2002 for the first time in more than 180 tables on irrigation technology and water use, nutrient use and nutrient management practices, crop residue management practices, pest management practices and pesticide use, and crop seed variety.

ERS provides regular analysis, based substantially on ARMS data, of the financial status of the farm sector and farm households. In addition to informing Federal, State and local policymakers about the viability of the farm sector and farm households, ERS income estimates provide official input into U.S. economic estimates disseminated by the Department of Commerce (DOC) and the Council of Economic Advisors. In Income, Wealth, and the Economic Well-Being of Farm Households, published in July 2002, ERS examines the conventional wisdom of agricultural policy since the 1930's that transfers of money to the farm sector translate into increased economic well-being of farm families. The report showed that neither change in income for the farm sector nor for any particular group of farm business can be presumed to reflect changes confronting farm households. Farm households draw income from various sources, including off-farm work, other businesses operated and, increasingly, nonfarm investments. Likewise, focusing on a single indicator of well-being, such as income, overlooks other indicators, such as the wealth held by the household and the level of consumption expenditures. Using an expanded definition of economic well-being, the report showed that farm households as a whole are better off than the average U.S. household, but that 6 percent remain economically disadvantaged.

GENOMICS

The request for an increase of $1,100,000 is necessary to strengthen the economic information and analytical bases for genomics research, application and education program decisions. ERS will play an integral part in the overall REE fiscal year 2004 genomics initiative by assuring that as biotechnological advances are made, the Department anticipates and understands their implications for consumer behavior, farm and food industry structure, and other social aspects of genomic developments. Experience with earlier applications of biotechnology to agriculture have demonstrated the importance of anticipating, monitoring and accommodating consumer demands and societal preferences to the extent science allows. The ERS initiative is designed specifically to complement collateral biological and bioinformatics research, and to serve as a basis for policy decisions likely to arise in the face of rapid genomics-based development in food and agriculture.

Goal 2.—The food production system is safe and secure.

ERS research is designed to support food safety decision-making in the public sector and to enhance the efficiency and effectiveness of public food safety policies and programs. The program focuses on valuing societal benefits of reducing and preventing illnesses, caused by microbial pathogens; assessing the costs of alternative food safety policies; studying industry's incentives, through private market forces and government regulation, to adopt food safety innovations; and analyzing consumer demand for food safety and the roles of consumer information, attitudes, and behaviors. ERS has worked closely with various USDA agencies and the Centers for Disease Control and Prevention (CDC) on various pathogen risk assessments and on analyzing the benefits and costs of implementing the Hazard Analysis and Critical Control Points (HACCP) rule. ERS and the Food Safety and Inspection Service (FSIS) work together to identify research projects and activities that address the needs of the Department.

In fiscal year 2002, ERS published Consumer Food Safety Behavior. A Case Study in Hamburger Cooking and Ordering, which found that promoting the benefits to consumers of following food safety recommendations appears to be influencing cooking and eating behavior. In fiscal year 2003, ERS will report the findings of the first nationally representative post-NAACP survey of meat and poultry slaughter and processing plants, designed to understand how NAACP has affected firms' costs and investments in food safety control technologies. The results will provide a baseline for FSIS' future efforts to monitor industry investments in food safety processes and technologies.

The ERS research program provides widely-cited quantitative estimates of the benefits of food safety risk reduction, such as reduced direct medical costs and indirect costs associated with productivity losses from foodbome illnesses caused by several major microbial pathogens. To be launched in fiscal year 2003, ERS has developed a web-based foodborne illness cost calculator—a tool that will allow users to explore and revise the assumptions behind the ERS estimates and develop their own cost estimates for specialized outbreak scenarios.

SECURITY ANALYSIS SYSTEM

The request for an increase of $1,000,000 will fund the development, delivery and maintenance of a more extensive and systematic SAS–USA. SAS–USA supports assessment of potential and actual threats to U.S. agriculture, including analysis of spatial and economic consequences of threat scenarios such as a Foot and Mouth Disease outbreak. The development activities will integrate the data, analysis functions and supporting software to create the desirable system capabilities. SAS–USA will provide policy officials with the information they need to respond effectively to many threats and crises in the food and fiber system. The system also provides spatial analysis and display capabilities for an integrated database covering food and fiber production, processing, transportation, and marketing as well as related agricultural inputs and natural resources. SAS–USA presents a framework for information and data integration across the Department and promotes the development and application of appropriate standards and methods for data integration.

Goal 3.—The Nation's population is healthy and well-nourished.

ERS helps identify efficient and effective public policies that promote consumers' access to a wide variety of high-quality foods at affordable prices. ERS economists analyze factors affecting dietary changes, and nutrient intakes; as well as trends in America's eating habits; assess impacts of nutrition assessments and the implications for the individual, society, and agriculture; and provide economic evaluations of food and nutrition assistance programs. In fiscal year 2002, ERS completed a major study of how the changing demographics of the Nation will affect 'Americans' future food choices and eating habits. America's Changing Appetite: Food Consumption and Spending to 2020 (2002) reported the impacts of aging, increased diversity, educational attainment, income growth, and population expansion on expenditures for different types of foods, commodity demand, and eating at home versus away from home. ERS also considers the implications of food consumption patterns and dietary choices for the structure of the food system. Farm Business Practices Coordinate Production with Consumer Preferences (2002) explains how consumer pressures placed on agriculture for variety, quality, and safety are affecting how the industry is organized, including the types of buying and selling arrangements within the food supply chain, and the application of information technologies.

In fiscal year 2003, ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and food assistance programs. ERS research on economic incentives and food choices is developing rigorous empirical studies of food demand, to inform discussion of topical dietrelated health policy issues.

Through the Food Assistance and Nutrition Research Program (FANRP), ERS conducts studies and evaluations of the Nation's food and nutrition assistance programs. FANRP research is designed to meet the critical needs of USDA, Congress, program managers, policy officials, USDA program clients, the research community, and the public at large, concerning the design and effectiveness of food and nutrition assistance programs, diet quality, and nutrition education. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP is enhancing national surveys by adding a food and nutrition assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food and nutrition program targeting and delivery, and program dynamics and administration. Two Congressionally mandated studies have been recently published: Assessment of WIC Cost-Containment Practices (2003) and Infant Formula Prices and Availability (2003).

ERS submitted to Congress a report that examined the effects of tiered meal reimbursement rates for family child care homes participating in the Child and Adult Care Food Program (CACFP). The study found that the family child care homes components of the CACFP became substantially more targeted towards low-income children, and the number and nutritional quality of meals and snacks in the homes with the lower reimbursements rates was maintained after tiering was introduced.

ERS published findings of the first comprehensive government study of the Emergency Food Assistance.System (EFAS). The reports provide detailed information about the system's operations and its component organizations, such as food banks and food pantries. Findings from a follow-up survey of EFAS clients will be reported this year.

ERS has completed the Congressionally mandated study, Assessment of WIC Cost-Containment Practices: A Final Report to Congress. WIC State agencies adopt various cost-containment practices to reduce food costs, such as limiting food-item selection of WIC participants, limiting authorized food vendors, and negotiating rebates with food manufacturers or suppliers. The study found that cost-containment practices can be relatively inexpensive to operate, reduce food package costs, and have few adverse impacts on WIC participants in terms of participant satisfaction, program participation, and product availability.

The Nutrition Programs title of the 2002 Farm Act require ERS to conduct an evaluation of USDA's Fruit and Vegetable Pilot Program (FVPP) for the 2002–2003 school year. The FVPP provides free fruits and vegetables to children during nonlunch periods in 100 schools in 4 States and the Zuni Pueblo Indian Reservation. The evaluation is currently being fielded and is on schedule for delivery to Congress by May 1, 2003.

Goal 4.—Agriculture and the Environment are in Harmony.

In this area, ERS research and analytical efforts, in cooperation with the Natural Resource Conservation Service (NRCS), support development of Federal farm, conservation, environmental, and rural policies and programs. These efforts require analyses of the profitability and environmental impacts of alternative production management systems in addition to the cost-effectiveness and equity impacts of public sector conservation policies and programs.

With passage of the 2002 Farm Bill, USDA looked to ERS to provide comprehensive and detailed, yet understandable, information to public and private users, including information on the conservation title programs. In addition, ERS provided extensive support to other USDA agencies in developing rules for implementation of the 2002 conservation programs. ERS participated in the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS) working groups on the Environmental Quality Incentives Program (EQIP), the Conservation Reserve Program (CRP), the Conservation Security Program (CSP), and implementation of conservation technical assistance by third-party technical service providers. ERS contributed substantially to the NRCS benefit-cost assessments for EQIP, GSP and the third-party technical service provider rule. ERS assisted FSA with rulemaking for the CRP program by suggesting ways to decrease the complexity of the Environmental Benefits Index (EBI) used by USDA county office staff, as well as methods to expand the EBI to include program impacts on nutrient loadings in ground and surface waters.

ERS researchers have actively assisted USDA and the Environmental Protection Agency (EPA) in assessing the economic costs and benefits of changes to the rules governing confined animal feeding operations (CAFOs) under the Clean Water Act, signed on December 16, 2002, with revisions to the total maximum daily load (TMDL) provisions still being revised. Following up on the report Confined Animal Production and Manure Nutrients, published in 2001, a new report titled Manure Management for Water Quality: Costs of Land Applying Nutrients from Animal Feeding Operations, expected to be published in July 2003, analyzes the farm-, regional-, and national-level costs to the livestock and poultry sector of meeting manure management requirements similar to those in the December 2002 rule. Results indicate that meeting a manure nutrient application standard increases the costs of managing manure. Costs are a function of farm size, acres.of cropland on the farm, regional land use, willingness of landowners to substitute manure nutrients for commercial fertilizer, and whether a nitrogen or phosphorus standard is met.

Public amenities provided by a rural agricultural landscape are important to many citizens and policymakers. Widespread development of farmland in some parts of the country is spawning an expanding array of farmland protection programs by county, State, and Federal governments, as well as by nonprofit organizations. All 50 States and the Federal Government have enacted farmland protection programs to help slow the conversion of farmland to developed uses. Following up on Development at the urban Fringe and Beyond. Impacts on Agriculture and Rural Land published in 2001, ERS published Farmland Protection: the Role. of Public Preferences for Rural Amenities, in October 2002. This report provides an overview of the rural amenities people care about that are related to preserving farmland in urbanizing areas. Because farmland protection programs can preserve only a fraction of land subject to urban conversion, understanding preference for rural amenities can be useful for program design. This report and its predecessor were of great interest to the NRCS Farmland and Ranchland Protection Program (FRPP) staff, as well as State and local farmland preservation officials. In consultation with FRPP staff, ERS is continuing research on farmland protection by examining the relative importance the public places on various rural amenities, looking at how farmland preservation effects land conversion rates, and analyzing the implications of FRPP's selection criteria.

The Department's implementation of the final rule for organic production and marketing in October 2002 ensured that the goals of the Organic Foods Production Act of 1990 were met, including certification by a State or private agency accredited under the national program of ail but the smallest organic farmers and processors. ERS had a large impact on the program through its research and data collection on pre-existing State and private organic certifying organizations, organic production practices, and organic food marketing. The report Recent Growth Patterns in the U.S. Organic Markets was published in October 2002 and two new datasets on organic production practices and organic produce prices were published Updating the initial report of organic production statistics in 2001, the report U.S. Organic Farming in 2001: Adoption of Certified System will be published in 2003. In September 2002, ERS, the Agricultural Marketing Service (AMS), and the Agricultural Research Service (ARS) jointly hosted a workshop for the Organization for European Cooperation and Development (OECD) on organic agriculture that presented the latest research in this field to policy makers from European, Asian, and Latin American countries, as well as U.S. stakeholders. Participants also visited organic farms in Maryland and Virginia. The workshop also reviewed the market approaches and policies used to encourage, certify and regulate organic agriculture, and explored the trade effects of different policies.

Goal 5.—Enhanced economic opportunity and quality of life for rural Americans.

ERS research explores how investments in rural people, businesses, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace. The Agency analyzes how demographic trends, employment opportunities and job training, Federal policies, and public investment in infrastructure and technology enhance economic opportunity and quality of life for rural Americans. Equally important is our commitment to help enhance the quality of life for the Nation's small farmers who are increasingly dependent on these rural economies for their employment and economic support.

ERS analyzes changing economic and demographic trends in rural America, with particular attention to the implications of these changes for the employment, education, income, and housing patterns of low-income rural populations. Analysis of the 2000 Census data help to provide the most up-to-date information on the current conditions and trends affecting rural areas. ERS published Rural Economy at a Glance (2002), the first in a series of reports that highlight the latest social and economic data for rural areas, to help policymakers in their efforts to enhance the economic opportunity and quality of life for viral people.

ERS researchers assess general approaches to economic development to determine when, where, and under what circumstances rural development strategies will be most successful. ERS analysts are leading a national research effort to assess the effectiveness of education as a rural development strategy, by analyzing the relationships between education and economic outcomes for the individual worker and the rural community. In addition, ERS researchers are working with USDA's Rural Development mission area to help design measurable performance indicators for its rural development programs.

For over 30 years, ERS has captured aspects of the broad economic and social diversity among rural areas in various county classifications. These typologies have been widely used by policy analysts and public officials to determine eligibility for and effectiveness of Federal programs to assist rural America. ERS held a national conference on measuring rural diversity in 2002 to identify economic, social, demographic, and policy themes that currently characterize rural places. ERS researchers are now addressing how these themes can be translated into a new or refined county classification system that will be useful to policy decisionmakers.

ERS also continues its long tradition of economic research on the welfare of disadvantaged population groups in rural areas; including low-income families, children, the elderly, and racial/ethnic groups, as well as the Federal assistance programs that serve them. Following the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, ERS led a national research effort to study the rural implications of welfare reform. A series of research studies, sponsored by ERS and published in a monograph, Rural Dimensions of Welfare Reform (2002), will help to inform the 2003 policy debate over reauthorization of welfare reform. Another study documents the reversal of the long-standing trend of Black migration loss from the South and connects these regional migration patterns to changes in economic development in the rural South. Other ERS research examines the rapid growth of Hispanics in rural areas and their role in affecting social and economic change in their local communities.

ERS will use 2000 Census data on population characteristics and information on local government finances to identify some of the most common problems associated with sprawl, such as crowded schools, shortages of affordable housing, traffic congestion, increased transportation costs, and strained local government finances.

The farm typology developed by ERS researchers, coupled with a new accounting stance that views the farm household as a more relevant decision unit than just the farm business, have been keys to greater insight into the factors affecting the well-being of farmers, reflected in the report Income, Wealth, and the Economic Well-Being of Farm Households, published in July 2002. Those insights lead to greater consideration of the roles of off-farm employment and wealth as factors in assessing farm household well-being and the importance and impact of farm safety net programs. A condensed version of the farm typology was an important feature in Secretary Veneman's statement of principles for farm policy, and it continues to inform debates about the incidence of farm profits and government payments.

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

The ultimate beneficiaries of ERS's program are the American people, whose well-being is improved by informed public and private decisionmaking, leading to more effective resource allocation. ERS shapes its program and products principally to serve key decision makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: the National Agricultural Statistics Service for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services.

CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTIC SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2004 budget request for the National Agricultural Statistics Service (NASS). This Agency administers the U.S. agricultural statistics program, created in USDA in 1863, and, beginning in 1997, has conducted the U.S. census of agriculture, first collected in 1840. Both programs support the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

The continual trend of American farms and ranches to make greater use of agricultural science and technology has increased the need for more detailed information. The periodic surveys and censuses conducted by NASS contribute significantly to the overall information base for policy makers, agricultural producers, handlers, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

Official data collected by NASS are used for a variety of purposes. Absence or shortage of these data may result in a segment of agriculture having to operate with insufficient information; therefore, NASS strives to continuously produce relevant and timely reports, while reviewing priorities to consider emerging data needs. Analyses based on NASS data were used extensively during development of the Farm Security and Rural Investment Act of 2002. Additionally, the Act requires several types of new agricultural data and reinforces the importance of existing data series to ensure the continuation of farm security and rural investments. For example, the counter-cyclical payments established by the Act are determined in part by market year average prices determined by NASS. Each $0.01 change in the average corn price will result in a change of more than $75 million in counter-cyclical payments. Similarly large amounts could be misdirected for the other program crops. Additional important data for the Act include data that assists farmers in implementing conservation programs, data on organic agriculture production, and data that supports socially disadvantaged farmers and ranchers in receiving and participating equitably in the full range of agricultural programs offered by the Department. These are only a few specific data needs critical to the Act's successful implementation, but they clearly highlight the importance of a strong, reliable agricultural statistics program.

NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is often cited by others as an excellent model of successful State-Federal cooperation. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The success of this partnership is being demonstrated by NASS through its State-Federal cooperation during the planning, collection, and dissemination of the 2002 Census of Agriculture. Improved quality, efforts to increase total response, and professional customer service through the use of a toll-free number are direct results of the State-Federal partnership. NASS's 46 field offices, which cover all 50 States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS statistics contribute to providing fair markets where buyers and sellers alike have access to the same official statistics, at the same pre-announced time. This prevents markets from being unduly influenced by "inside" information which might unfairly affect market prices for the gain of an individual market participant. Empirical evidence indicates that an increase in information improves the efficiency of commodity markets. Information on the competitiveness of our Nation's agricultural industry has become increasingly important as producers rely more on the world market for their income.

Through new technology, the agricultural sector in the United States is changing rapidly. This also means that the agricultural statistics program must be dynamic and able to respond to the demand for coverage of newly emerging products and changing industries. For example, during 2002, NASS issued the U.S. Dairy Herd Structure report. This report provided a summary of the changes in the structure of the U.S. dairy herd by size of operation and geographic location. NASS also issued an update of the U.S. Hog Breeding Structure report. This report built on information provided in 2001 and included data on the changes in the makeup of the breeding herd by size of operation and the efficiency of the breeding herd in recent years.

Not only are NASS statistical reports important to assess the current supply of and demand for agricultural commodities, but they are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision making. Statistical data are used in decisions affecting agricultural policy, foreign trade, infrastructure, environmental programs, research, rural development, and many other activities.

All reports issued by NASS's Agricultural Statistics Board are made available to the public at previously announced release times to ensure that everyone is given equal access to the information. NASS has been a leader among Federal agencies in providing electronic access to information. All of NASS's national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form. Customers are able to electronically subscribe to NASS reports by clicking on the appropriate release. A summary of NASS and other USDA statistical data is produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS Home Page, on CD–ROM disc, or in hard copy. All of NASS's 46 field offices have Home Pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

Beginning in fiscal year 1997, NASS received funding to conduct the census of agriculture on a 5-year cycle. The transfer of the responsibility for the census of agriculture to USDA streamlined Federal agricultural data collection activities and has improved the efficiency, timeliness, and quality of the census data. Data collection for the 2002 Census of Agriculture began in December 2002 and will culminate with the census release in February 2004.

Statistical research is conducted to improve methods and techniques used in collecting and processing agricultural data. This research is directed toward providing higher quality census and survey data with less burden to respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has been a leader in the research and development of the use of satellite imagery to improve agricultural information through its continued expansion of the Cropland Data Layer program. The program now includes geographic information data layers for eight major crop-producing States. The NASS statistical research program strives to improve methods and techniques for obtaining agricultural statistics with improved levels of accuracy. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Developing new sampling and survey methodology, expanding modes of data collection including Internet contacts, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry. Considerable new research has been directed at improving the 2002 Census of Agriculture, including the successful use of optical scanning and Intelligent Character Recognition systems. NASS is also making advancements in Electronic Data Reporting, with the goal of giving the Nation's farmers and ranchers the opportunity to respond electronically to the 2007 Census of Agriculture.

Major Activities of the National Agricultural Statistics Service (NASS) The primary activity of NASS is to provide reliable data for decision making by conducting unbiased surveys each year and the census of agriculture every 5 years, to meet the current data needs of the agricultural industry. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about crops, livestock, prices, chemical use and other agricultural activities each year. Periodic surveys are conducted during the growing season to measure the impact of weather, pests, and other factors on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made. Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in over 400 separate reports.

The census of agriculture provides national, State, and county data for the United States on the agricultural economy every 5 years. The census of agriculture is the only source for this information on a local level, which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Important demographic information supplied by the census of agriculture also provides a very valuable data base for developing public policy for rural areas.

Approximately 60 percent of NASS's staff are located in the 46 field offices; 24 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS's State Statistical Offices issue approximately 9,000 different reports each year and maintain Internet Home Pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a serious void in the availability of reliable pesticide usage data. Therefore, beginning in 1991 NASS cooperated with other USDA agencies, the Environmental Protection Agency (EPA), and the Food and Drug Administration, to implement comprehensive chemical usage surveys that collect data on certain crops in specified States. EPA uses the state and national level actual survey chemical data, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also instituted survey programs to acquire more information on Integrated Pest Management (IPM), additional farm pesticide uses, and post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data, which are important additions to the data base. Surveys conducted in cooperation with the Economic Research Service also collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage nearly half the land mass in the U.S., underscoring the value of complete and accurate statistics on chemical use and farming practices to effectively address public concerns about the environmental effects of agricultural production.

NASS conducts a number of special surveys as well as provides consulting services for many USDA agencies, other Federal or State agencies, universities, and agricultural organizations on a cost-reimbursable basis. Consulting services include assistance with survey methodology, questionnaire and sample design, information resource management, and statistical analysis. NASS has been very active in assisting USDA agencies in programs that monitor nutrition, food safety, environmental quality, and customer satisfaction. In cooperation with State Departments of Agriculture, land-grant universities, and industry groups, NASS conducted 164 special surveys in fiscal year 2002 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices. All results from these reimbursable efforts are publicly available to benefit all of agriculture.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other Government agencies on a cost-reimbursable basis. NASS's international programs focus on developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate information is essential for the orderly marketing of farm products. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to China, Dominican Republic, Ecuador, Ethiopia, Honduras, Kazakhstan, Mexico, Nicaragua, Russia, South Africa, and Ukraine. In addition, NASS conducted training programs in the United States for 107 visitors representing 30 countries. These assistance and training activities promote better quality data and improved access to data from other countries.

NASS annually seeks input on improvements and priorities from the public through displays at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts, especially those made at the grass roots level through NASS's 46 field offices. As a result of these activities, the Agency has made adjustments to its agricultural statistics program, published reports, and electronic access capabilities to better meet the statistical needs of customers and stakeholders.

FISCAL YEAR 2004 PLANS

The fiscal year 2004 budget request is for $136,182,000, which includes the following major initiatives.

The 2004 budget includes $25,279,000 for the census of agriculture, which reflects the decrease in staffing and activity levels to be realized due to the cyclical nature of the 5-year census program. The available funding includes monies to finalize analysis, summary, and dissemination of the 2002 Census of Agriculture. The request also includes funding for follow-on census activities for the critically important and timely Farm and Ranch Irrigation Survey, planning for the Census of Horticultural Specialties, and enhancing list maintenance activities between census data collection years to ensure a high level of coverage.

The budget requests an increase of $5,413,000 and 29 staff years to fund restoration and modernization of NASS's core survey and estimation program. Funding will be directed at beginning to restore and modernize the core survey and estimation program for NASS to meet the needs of data users at an improved level of precision for State, regional, and national estimates. The program covers most agricultural commodities produced in the United States, as well as economic, environmental, and demographic data. This program has not received an increase in funding since 1990, leading to a reduction in the quality of survey data on which estimates are based.

The budget includes an increase of $1,600,000 and 6 staff years to provide for data acquisition for the annual integrated Locality Based Agricultural County Estimates/Small Area estimation program. Local area statistics are one of the most requested NASS data sets, and are widely used by private industry, Federal, State and local governments and universities. This funding supports the NASS goal to incrementally improve statistically defensible survey precision for small area statistics. Proper follow-up data collection activities and redesign of survey systems will improve the valuable annual county-level data. The Risk Management Agency (RMA) uses these statistics in indemnity calculations for Group Risk Plans and the Group Risk Revenue Plans as part of the risk rating process, which affects premiums paid by producers. The Farm Service Agency uses county estimates to weight posted county prices to national loan deficiency payments, and as an input to assist producers to update their base acreage and yields as directed by the Farm Security and Rural Investment Act of 2002. In addition, financial institutions, agriculture input suppliers, agricultural marketing firms, and transportation companies who provide billions of dollars of goods and services to farmers and ranchers utilize county level data to make informed business decisions.

The budget also requests an increase of $4,750,000 and 2 staff years for collaborative e-Government efforts within NASS and across the USDA. The increase supports NASS's electronic data reporting initiative which will provide producers and agri-businesses the option of submitting reports electronically in order to reduce burden and meet the mandate of the Government Paperwork Elimination Act. Additionally, data provided to the public must be made available in the easiest, most useful, and most versatile manner. In between data collection and summary data dissemination, electronic processing improvements within NASS are critical to timely and efficient data management while safeguarding the security and confidentiality of sensitive data. The funding also supports NASS's role as the lead agency for two of the USDA's eGovernment initiatives, Survey Capability and Data Management.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this statement for the record.

PAYMENTS TO PRODUCERS

Senator BENNETT. Thank you very much.

As I listened to all of this testimony together as a body, I have some reactions, and I apologize if they are a little bit ragged because I haven't had a chance to think them through and tighten them up. But let's go into this for just a minute.

Dr. Collins, it seems to me you were saying that payments go up in good times and payments go up in bad times. Is there ever any circumstance, any market situation where payments to the agriculture community can either level out or, glorious day for the taxpayer, start to come down because the market has taken over and farmers are prospering as a result of the market and payments don't need to be made? Could you address that?

Dr. COLLINS. Certainly, Mr. Chairman. What you have described is a rare experience in recent years, but it has occurred, you know, over the last decade. It did occur in 1996. We had a very strong global economy. It was growing at 3 to 3.5 percent, and I often use that 3 to 3.5 percent as sort of the threshold for which you see global economic growth effects on U.S. agriculture, and that is the way things were going in the mid-1990s. And we had a global drought. For example, the Australian wheat crop was cut in half, just like it was this past year. That led to record high farm prices, and we saw farmers' income from the marketplace was basically their total income. Government payments all but went to zero during that period.

But that has been a rare experience in the last 15 years, and over the last 15 years generally farm payments have been high. They have been particularly high since the Asian currency crisis in 1998 and the slow growing economy ever since then.

But 2 years ago, if you just looked on a calendar-year basis, we were paying farmers about $22 billion or so a year in Government payments. I think this year in 2003 they will be $17 billion or so. So they are still high, but they have come down, and they have come down because prices have come up a little bit, but nowhere near the levels they were in the mid-1990s.

Another factor in this as well is farm programs have changed since 1996 so that we are now making payments to farmers that are independent of prices, these so-called direct payments under the 2002 farm bill. Under the last farm bill, they were called—a great name—production flexibility contract payments. But those——

Senator BENNETT. Making it impenetrable for the non-informed to have any idea as to what you are doing.

Dr. COLLINS. Which some people probably take as an objective of their work up here. But in the 1996 farm bill, those payments were about $4 billion a year. Now they are about $5.2 billion a year. And those are independent of prices. We are always going to make those payments, at least under the current legislation. For lots of reasons we decided to do that. So even today, if prices get very strong and go above the so-called target prices that we have in law, we are still going to be making payments to farmers because of those direct payments that we have in law.

Senator BENNETT. Sometime when we are not under this kind of pressure, I will have to have you explain to me why that is a good idea.

Dr. COLLINS. I would be happy to do that.

GUARANTEED FARM LOANS

Senator BENNETT. Okay.

Dr. Penn, on the same theme, we come to you, and you are involved with loan guarantees. Now, that immediately creates in my mind the question: What is the default rate? Do we get any interest benefit for having made a loan guarantee? I remember the great debate over loan guarantees to Chrysler, for example, when that corporation was in default and headed for bankruptcy and the country decided that that was not a good idea. And the United States made millions, ultimately, from Chrysler as they paid back the fee for the loan guarantees. We didn't have to make good on any of those guarantees, and we made a little money.

Is that ever going to happen in agricultural loan guarantees? What is your failure rate, interest income? Help me understand how all that works.

Dr. PENN. Okay. There are two loan guarantee programs in the mission area that I look after. One set of loan guarantees is to farmers. We guarantee loans that farmers may take out for land ownership and for operating expenses. This loan program comes out of the old Farmers Home Administration that Under Secretary Dorr mentioned. These are loans that are made largely——

Senator BENNETT. I am going to get to him.

Dr. PENN. These are loans that are made largely to people who don't have an option in the commercial lending system for the most part. We make both direct loans and guaranteed loans, and the guaranteed loans are for people who have a little better credit rating than those for which we make direct loans. The loans are targeted in part to beginning farmers, minority farmers, socially disadvantaged farmers. And the thought is, of course, that the loans serve a social purpose, that they enable people to stay on the land and they enable people to stay in rural areas and to be engaged in agriculture.

Now, this program has had a pretty checkered history in times past. It had default rates that approached 50 percent, but I understand now that the default rates for these loan programs are down on the order of 12 or 13 percent in the current period.

And so this is thought to be a great improvement in the way these programs are operated, and they are very popular programs, as you can imagine. And I think that everyone acknowledges that they are run much more efficiently. They are run about as much like commercial loan programs as you can, recognizing, again, that these are for people who don't qualify for commercial loans and would have no other access to credit.

[CLERK'S NOTE.—The default rate that Dr. Penn refers to actually is more representative of the delinquency rate for the direct portion of the farm loan portfolio. Direct loans, and in particular emergency loans, experienced relatively high default/delinquency rates in years past, especially during the 1980's. The guaranteed loan program, on the other hand, has historically had a very low default rate. Over the last 5 years, losses paid vs. unpaid principal outstanding on the guaranteed portfolio have ranged from a low of 0.6 percent to a high of 1 percent.]

EXPORT CREDIT GUARANTEES

The second set of loan guarantee programs that we operate in this mission area are the so-called GSM credits, and every year we guarantee something on the order of $3.5 billion in agricultural product sales to foreign customers. And this is a program that we think is very effective in helping us expand exports, and the default rate on that program in a normal year is very minimal. We typically don't have very much default in that program. The defaults that we do have come about from very unusual circumstances. Iraq is a big creditor to that program because of hostilities in previous times, as you can imagine. Poland defaulted back at the height of the Cold War. And there are some other notable cases like that. But, by and large, this, too, is a pretty effective program, and it provides enormous benefits in that it helps us expand our sales abroad and it is operated at relatively little cost to the Government.

Unlike the loan to Chrysler, we don't make very much money on these, of course. We don't have an opportunity for that kind of revenue sharing.

Senator BENNETT. Well, first, you say that the default rate is at a minimum. What is your definition of a minimum?

Dr. PENN. I don't know that exact number. I will have to get that number for you.

Senator BENNETT. It is in the single digits?

Dr. PENN. Single digits. It is very small for that program.

Senator BENNETT. Low single digits?

Dr. PENN. Yes.

Senator BENNETT. And you say you don't make very much money. Do you make enough money to cover the default rate? In other words, do you break even? Do you have any idea about that?

Dr. PENN. I don't know about that. I will have to find that out for you.

Senator BENNETT. Could you find that out and let me know?

Dr. PENN. I will do that, and we will look over a sweep of time, like 10 years or some period like that.

[The information follows:]

EXPORT CREDIT PROGRAM DEFAULT RATE

The fiscal year 2003 default rate for the GSM Program is projected to be 7.7 percent. The average default rate for the last 5 years (1998 to 2002) is 6.7 percent.

The subsidy required to support the GSM program is relatively low, but USDA does not break even. If the Department broke even or made money on this program, the program would have either a zero or a negative subsidy rate. While we try to minimize losses in this or any other loan program, it should be noted that these loan guarantees are not issued for the purpose of making money for the Government. They are issued to encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees.

FARM PROGRAM POLICY

Senator BENNETT. You know, I sit on the Banking Committee in my other life, and a 12- to 13-percent default rate would not be considered progress.

Dr. PENN. Right.

Senator BENNETT. Now, I realize everything is relative. Coming down from 50, it is considered great progress. But the thought occurs to me, if these are people who would otherwise be unable to stay in farming if you didn't give them the money, and part of our problem is that we have surpluses, it is going to sound heartless but the laws of economics say that one of the ways you could resolve some of the pressures on the farm situation as a whole would be to say you folks ought to find another line of work, and particularly, if I recall your testimony correctly, a very large percentage of them already have found another line of work and are getting—what was the number?—three-quarters of their revenue from something else.

Does it really make sense in terms of national policy for the Federal Government and the Federal taxpayer to be keeping excess capacity in place in this particular part of the economy to the tune of subsidizing bad credit risks at the rate of 13 percent? Now, this is a policy question, obviously, that the Congress has to answer. But as I get myself into these issues, coming from a businessman's background, this is the obvious question that comes out of the testimony we have had here this morning.

Do you have any comments? Or, Dr. Collins, you are sitting there at least paying attention.

Mr. Dorr, I am going to get to you because we have got the same kinds of situations where you are, and any comments that any of you might have.

Dr. PENN. Well, let me say that is the age-old dilemma—how do you allow resources to exit from any sector of the economy where new technologies are being introduced. And this is an age-old question in farm policy circles, keeping resources in when you have got an abundance of commodity on the market and people are always decrying low prices.

But, on the other side of the question, there is the thought that there is some benefit in keeping people in rural areas and maintaining the areas' viability. I am sure Mr. Dorr will tell you all about worrying about the vitality of rural communities and keeping a critical mass there. And so there are trade-offs, I think, in providing subsidies to keep people in certain parts of the country or providing subsidies when they move to another part.

So this has been an ongoing-old discussion, but I think it is one that the Congress has confirmed time after time. It is a decision made by the Congress, as you indicate.

RURAL DEVELOPMENT CREDIT PROGRAMS

Senator BENNETT. Well, let's get to Mr. Dorr. Here we have got people who, without this kind of assistance from the Federal Government, could not economically survive. So you are coming along and giving them Federal subsidies in the houses that they otherwise couldn't afford, and this becomes a double incentive for people to remain in an uneconomic kind of activity.

Now, is that a harsh summary of where we are? I am deliberately putting it in as stark terms as possible in order to provoke conversation. But I find it very interesting when we are talking about rural development to hear you discuss multi-housing family projects. One doesn't think of multi-housing family projects in terms of rural areas. One thinks of wide open spaces. And if we are talking about the social good of being out where the deer and the antelope play, the deer and the antelope don't require a multi-housing family portfolio.

So shifting the focus now to you and your area of responsibility, what is your default rate? What happens to any interest income that comes off of these loans? And is the Federal Government making enough money on the interest to cover all of its costs?

Mr. DORR. Well, they are obviously very thought-provoking questions, and as Dr. Penn has indicated, they are kind of age-old questions when it comes to what is occurring in rural America.

Our programs run the gamut from housing to utilities to community facilities to a number of things. Interestingly enough—and I have said this before—our programs historically deal with the other 62 or 63 million rural Americans who aren't directly impacted by the traditional Title I and Title II programs.

DELINQUENCY AND DEFAULT RATES

In our single-family housing program, in our direct program, our delinquency rate is running about 13.5 percent. The interesting thing about that is last January 30th, the Chase Home Finance folks made a major announcement of an additional commitment of a half trillion dollars of funds to the minority home ownership issue across the country. We were invited to attend, and at that particular event, we were told that one of the best places they liked to invest—and they have determined this over the last 6 to 8 years—is rural America. They made this announcement in front of a large group of folks, including a number of major money center bank officials. They said there are two reasons why they like to invest in rural America:

Number one, it is a great place to invest. There are significant opportunities.

And, number two, the default rate is less than what it is in urban areas. Low default rates in these rural, growing, regional, developing areas are, quite frankly, very intriguing.

When you make the jump, for example, over to our community facilities programs, we have very, very low default rates. Just the other day I was looking at some where we actually had a negative subsidy rate relative to the way it was scored. These funds are typically used for fire houses, day-care centers, medical facilities, those sorts of things. And they seem to be quite effective.

In our business and industry loan program, I think in 1983, our default rate was about 20.9 percent. In 2002, that default rate was down to a little over 10 percent. Our goal is to get it to 4 percent, and I think that we will make significant progress in that way.

One of the other things that we do, however, is that we are involved in a number of entrepreneurial, value-added development and loan and loan guarantee programs, in conjunction with the ability to finance the build-out of the kind of infrastructure that rural America needs to grow. There are a number of areas of rural America that are growing, and they are benefiting from these programs and they are creating other job opportunities not directly related to production agriculture.

So, in my view, there are a number of these programs that are quite successful, and have very reasonable default rates. We know that some of them have, at least at this time with the low interest rates we have, negative subsidy rates. So I think that there is some progress being made, quite frankly.

Senator BENNETT. The picture I am getting is that the Federal Government is doing everything it can to sustain people in an uneconomic activity. Obviously, I am very interested in that because of the number of rural people in Utah, and when I visit the rural communities in my State, they all complain that there is not enough economic activity and they all complain that their kids can't find jobs and they have to migrate to the cities and isn't it awful that we are losing this wonderful rural way of life.

At the same time, I happen to have a steel mill in the State of Utah, and the steel mill is now closed. And they tried to get some Federal help to keep the steel mill alive, and the reality is that there is a world overcapacity for production of steel. And the world overcapacity of the production of steel is bringing the price of steel down. That is what happens.

I keep saying to my colleagues, if I could control what we carve in marble around here, along with all of the pleasant Latin phrases—maybe I ought to figure out how this reads in Latin. You cannot repeal the law of supply and demand. We keep trying in Government, with wage and price controls and all other kinds of things.

In the steel industry, people have finally resigned themselves to the fact that the law of supply and demand, which cannot be repealed, has decreed that some of these steel plants around the world are going to have to close until supply and demand come into equilibrium again. And some of them are going to be American plants. And, unfortunately, one of them happens to be in the State of Utah.

Now, that is a wonderful plant. It is modernized and it is environmentally friendly, and in many ways it is probably the low-cost producer in the United States. But it is closed, for a variety of reasons that I won't bore you with. And unless the demand for steel around the world—because we are, again, in a global market—firms up rather dramatically rather soon, it is going to stay closed. And the people who used to work in the steel plant are going to have to do something else.

The picture I am getting here is that the same forces would dictate that there are some farms that are going to have to disappear and, indeed, have been disappearing. But the Federal Government is going to stand here kicking and screaming to say we won't allow real market forces to take place here, and I guess we are back to Congress has made the decision that that would be just too socially disastrous to allow that to happen.

But setting that aside for a moment—it is probably a good thing I am all alone.

SUPPLY CONTROL

None of my colleagues will have any memory of this, but setting that aside for a moment, from a straight economic analysis isn't it true that the Federal Government has perpetuated oversupply and thereby a situation where, if people are going to continue to live in that world, they are going to have to be subsidized by taxpayers?

Dr. COLLINS. I will take a shot since you said from a straight economic point of view, and relieve my colleagues of having to answer that one.

I think you are right. I think that has been the long-term history of farm programs. Some people call it a cheap-food policy. Other people call it trying to expand production as a policy objective. Other people call it trying to have a policy of place, where we ensure that there is adequate production regionally dispersed across a varied array of commodities so we can ensure the rural infrastructure.

Whatever the policy objective that people put on it, I think the effect has been to cause production to be higher than it would probably otherwise be. That is demonstrated by 50 years of supply control programs that we had in place until 1996. And we still continue to have some forms of supply control programs, such as the Conservation Reserve Program, probably the single biggest one that we continue to have and have ever had in history.

And now we have marketing assistance loan programs which economists call "coupled." They are tied to production, they are tied to price, and they create distorted economic incentives.

So I agree with that. The terms that you used in your discussion so far have been terms like "economics" and terms like "social choice," and that is what a lot of this has come down to. It is the trade-off between the degree of efficiency you want in the agricultural sector versus social policy. To get efficiency in a sector like Dr. Penn described, one where technological change has caused rapid advances in production, then you are going to have resources leave the sector. You can define the word "crisis" by the speed with which resources have to leave the sector. And if they have to leave very rapidly, then people would call that a crisis. When there is a crisis, Congress addresses that with social policy, programs for places, and that is what we have had in agriculture.

But, fortunately, there has been a great debate about this in recent years. The old theory about agriculture was you had inelastic demand, so if you got a sudden increase in production due to technology or good weather, that caused prices to go way down and people couldn't withstand those low prices, and they would be driven unnecessarily out of agriculture, so you had to provide them support. And when prices went way down, because supply was also inelastic, they wouldn't cut back on their production.

So the old school story about agriculture was this inelastic supply and this inelastic demand prevented resources from leaving agriculture until people lost their farm and lost everything. And then a few years later, who knows? Demand might be better, and those people would unnecessarily have lost everything.

So that was sort of the logic that drove these programs. But the vision of agriculture has changed a lot over the last 20 years. Now we see an agriculture that is dominated by a small number of farms. They have highly skilled operators. They are well capitalized. There are all kinds of risk management tools available to them today. It is not the same farm that was there when these farm programs were designed.

So there is this new thinking about how well farmers can respond versus the old thinking about how farmers can respond, and Congress is sort of torn between those two views. It has been slowly over time reforming farm programs to move them toward the new view, and I think we were on a good path to do that—until the last couple of years. The last couple of years have sort of knocked us off that path a little bit. And so where we go from here on out is going to be determined by people with vision like yours versus people who have other visions.

Senator BENNETT. You are making an assumption about me from my questions, but you are probably right.

Let me ask if those farmers, as you describe them, who are now very large and well capitalized and very efficient and take advantage of all of the research that comes out of Dr. Jen's effort and so on, do they receive the bulk of the payments?

Dr. COLLINS. They do. Payments historically are tied to production. They produce the most. They get most of the payments.

Senator BENNETT. That strikes me from an economic point of view as really quite perverse.

Dr. COLLINS. Well, that is——

Senator BENNETT. You do not have to comment if you do not want to, but——

Dr. COLLINS. No comment.

Senator BENNETT. Dr. Jen, let us get to you then. As you add to this over production by your research and demonstrate how people can get far better yield per acre and more nutrition per calorie or whatever it might be, what is the impact? I mean that is implied in my question. Is there in fact a significant impact towards this overall issue of imbalance between supply and demand? Are you fueling it, and does the money we put into research exacerbate the efficiency of everything, and thereby drive up the amount of support that taxpayers have to make?

Dr. JEN. Mr. Chairman, that is a very difficult question to answer. I would like to choose probably——

Senator BENNETT. I will send you the easy ones in writing.

RESEARCH AND AGRICULTURAL PRODUCTION

Dr. JEN. Thank you. Half a century ago, the U.S. agriculture's goal was mainly trying to win the war on hunger for this country, and I believe we pretty much have done that, and what we are trying to do now is eat better, and probably our next war is a war on obesity in this country.

However, from a researcher and educator point of view—throw away my economist hat——

Senator BENNETT. Your biochemist hat. Go on.

Dr. JEN. I think being the United States, being the most wealthy and number one country in this world, we probably should have a responsibility for trying to stamp out hunger in the world, and I do not believe that war is won. From that point of view, I think research and education and economic development, all those things that are in my mission area are probably needed. I think we have to try to balance how to help the developing countries, the rest of the world, to eat and stamp out hunger, yet at the same time how we can keep our producers on a competitive base and not lose money like you were saying. So I think from strictly an economic point of view, I would say that research is still needed.

Senator BENNETT. I am not implying that it is not.

Dr. JEN. The other thing also is that I think we are facing new challenges. Even in production in our country, we are facing more challenges related to the environment, to limited resources. We are going to run out of water. We are going to run out of air, run out of land, as the population increases.

So how do you produce products, food, to feed a growing population in the world I think is also going to be a part of the picture, and we are adjusting our research program, toward that goal.

Lastly, it is interesting listening to my colleagues' and your discussion on the economy on the farm side. We deal with not only the production but also the value added, food processing and the consumer side on this. It just dawned on me that the U.S. food industry does not come to the Federal Government for any loans or grants, and they are competing fairly well on a worldwide basis.

AGRICULTURAL PRODUCT DISTRIBUTION

Senator BENNETT. Thank you very much. You see war on hunger and now a war on obesity. We have not solved the war on hunger in this country, not because we do not have the production capability to do so, indeed we do, and we have excess food sitting in silos various places. This is not the focus of the Department of Agriculture, but this is a distribution problem, not a production problem. We have hunger in the State of Utah, and I and my staff have gone down to the food bank and unloaded contributions that come from the Boy Scout drives when everybody leaves a couple of extra cans of tomatoes on their front porch and the Boy Scouts come and pick them up. At Christmastime everybody buys extra groceries. I have done it. I am sure everybody else has. You go to the supermarket, and standing out in front of the supermarket is somebody from the Salvation Army, and they do not just tinkle the bell and ask for quarters any more. They have shopping carts and say, "While you are in there, buy some extra milk, baby formula, whatever, whether you have any babies or not, and then as you leave the supermarket, take that extra sack of food and drop it in here." Then it goes to the food bank, and they need totally unskilled labor like mine to unload it from the trucks as it comes in and put it in the places that will ultimately get it into the hands of the people who need the food.

We underestimate the importance of a distribution system. The Russians used to be able to raise every bit as much wheat as they needed, and it rotted at the railhead because they did not have a distribution system to get it to their people in their cities, and they ended up importing wheat from the United States even though they could and did produce enough. This goes back to Mr. Lenin, who along with all of his other foolishness, foolishly assumed that the middle man was a capitalist tool and had to be eliminated, and Mr. Lenin had great efficiency in doing that. He shot them, and consequently doomed the Russian economy to 75 years of shortages because he would not pay the middle man for the value added that was involved in taking the product from the farm and delivering it to the customer. We still get some of that rhetoric as people say, "A bushel of wheat is worth *x* at the farm and it costs *y* at the supermarket when it is a loaf of bread, and is that not terrible that the farmer is not getting as much money as the customer is paying?" They do not realize that one of the reasons the farmer is not getting as much money as the customer is paying is because the customer does not live on the farm. The customer lives in New York City and there has to be somebody who refrigerates it and stores it and packages it and puts it on the supermarket shelf, and gives you the convenience at 7–11 that you can walk in at 2:30 in the morning after the Senate has been in session and buy yourself a burrito or whatever it might be.

The efficiency of the distribution system is incredible, but there are elements of American society to which there is no distribution system and therefore there is hunger in the United States, so it is not a production problem. It is a distribution problem.

Dr. JEN. You are absolutely right, Mr. Chairman. I think I did say we have largely stamped out hunger.

Senator BENNETT. No, I am not quarreling with you. I am using your statement as a springboard to make another point for the record, and is this not really the problem in the world? Is there not really enough food being produced worldwide to feed everybody on the production side, and the difficulty is distribution? Is that not the problem? The French will not let genetically-modified food get into France and the Russians will not let chicken breasts get into Russia. There are political barriers. And then you get into the enormous problems of sub-Saharan Africa and certain parts of South America. It is not a production problem. We have the food. We would love to get rid of it under Public Law 480 or any other program. We would love to get rid of the surplus food around the world to feed people in the world. We cannot physically get it in there because of the distribution problem.

Am I off base with all of this? Help me. I am just exploring with you now that I have the advantage of talking to you with no competition on either side. Help me understand all of these issues.

Dr. PENN. I think you are right about the basic problem of world food supply and demand. I think there are 800 million people out of the 6 billion in the world today that suffer from hunger and malnutrition on an ongoing basis. We certainly have enough food in the world to feed those people. It is a matter of poverty and a matter of distribution, lack of physical infrastructure, lack of purchasing power, things of that nature.

Also there is an ample amount of technology in the world today to enable a lot of countries to increase their yields. Yields in many parts of the developing world are a fourth or a half of what they are in the developed world, and with a little bit of existing technology, they could improve their food production and be much more capable of feeding their own people. As you know, the problems are political. There are hostilities. The problems still have to do with lack of development and capital mobilization.

AGRICULTURAL TRADE

We are trying to address a lot of those problems on many fronts. Improved technology is an immediate one, a direct one. But this trade agenda that I mentioned is another way in which we are trying to indirectly get at the hunger and malnutrition problem. It is pretty clear that those economies around the world that develop, where consumer incomes grow and people get fed better, are ones that are open, are ones that are interconnected in the world, that trade, that attract capital, that bring in new technology and new management practices.

That is what we think our trade agenda is all about, not only to expand trade and market opportunities in the short run for our farmers and ranchers. Over time as these economies grow, they become much better markets, as you said, for leg quarters rather than just number two yellow corn. They start buying meat and poultry products and dairy products and more processed foods, and that creates economic activity here at home. So it is sort of a win-win situation to both help combat hunger and malnutrition and at the same time to improve opportunities for people here at home.

Senator BENNETT. Then come around full circle, lest any of my rural friends who are listening or watching think I am willing to let rural America wither on the vine and die in the name of creative destruction, we could solve many of the problems in rural America of oversupply and thereby the requirement for Federal subsidy, if we could open up these markets. The farmers who are currently drawing Federal assistance and then creating some of the default rates that you were talking about, Dr. Penn, and that you were talking about, Mr. Dorr, those default rates would go down. And Dr. Collins, the Federal payments would go down if these world markets were opened up, because as the most efficient producer in the world, the American farmer, regardless of size, can compete very well with any other farmer anyplace else.

If we go back to my analogy of the steel mill, it is the low-cost, high-efficiency steel mills that are going to survive in the period of lower capacity, and the American farmer is the low-cost most efficient farmer in the world, and he is the one, she is the one increasingly, that will survive and do well if we can get rid of some of these barriers. Is that a fair statement?

PRODUCTIVITY INCREASES

Dr. PENN. That is very much a fair statement. And you make another important point, and that is that the world does not stand still. Dr. Jen and all of his fellow scientists are always out here trying to increase the productivity of American agriculture, and the 50-year trend in productivity growth in American agriculture is about 2 percent a year. So you can see in a 10-year span of time we will increase our capacity to produce food and fiber with a given set of resources by 20 percent, not taking account of compounding. When you look at the domestic market growth, our population grows relatively slowly, and we increase our aggregate food consumption each year by about eight-tenths of 1 percent, so over a 10-year span of time our aggregate consumption will increase about 8 percent while we have increased our production capacity 20 percent.

So we are constantly adding to this excess capacity which makes it all the more important that we get access to these growing markets, and it is in our best interest to see the developing countries of the world grow and mature so that they become better markets. It is a very dynamic situation.

Senator BENNETT. Mr. Dorr, access to these kinds of markets, would that not go a long way towards producing the sort of rural development that you are currently concerned about?

RURAL JOB GROWTH

Mr. DORR. I think that will clearly help manifest it. I think the other side of this issue is the fact that there was a recent report out of the Third District Federal Reserve Bank of Philadelphia, pointing out that much of the significant economic growth both in terms of new businesses as well as jobs and job growth opportunities during the course of the 1990s occurred in many of the rural areas in Pennsylvania. Clearly after having come in from the farm a couple of years ago and spending a great deal of time in these moving parking lots, I can understand why people are inclined to keep their rural residences. So I think there is a change in the economic structure that is attracting people to rural areas, and we are involved in building out the infrastructure and sustaining it. Once the things you discussed with Dr. Jen and Dr. Collins are manifested, with these other opportunities in which we are involved in terms of building out the infrastructure, I think the dynamics of rural America will change in many areas.

MAINTAINING RURAL AMERICA

Senator BENNETT. Thank you for this. This has been very helpful. I wanted just to close it off before I go into some of the specific questions, with the observation that people who live in rural areas are smarter than people who live in urban areas think they are, and one of the reasons they stay there is partly because of quality of life and partly because of an understanding that in the information age they can do the kind of things you just described. So a vibrant, rural America is important, but we should be doing what we can to see to it that it is vibrant because of its ability to compete in the future, rather than vibrant because of its nostalgia for the past.

If we ever did allow rural America to shrivel up and blow away, we would pay a very significant price for that. I want to make that clear. From all of my conversation about the economic side of it, I want to make it clear that the long-term impact of having rural America dry up and blow away would be very significant.

If I can just burden you with an observation from an entirely different circumstance, if you go back in history in the British Isles, there was a time when the English, for whatever geopolitical reason, decided it was in their national best interest to clear the highlands of Scotland. That is a very antiseptic term to describe what they did. Clearing the highlands meant literally driving everybody off the land. As a tourist now, if you go to Scotland 300, 400 years later after the clearing of the highlands, they are still clear. That is, you go through the highlands of Scotland and the scenery is wonderful, but the sense of desolation and barrenness from the fact that there has been no significant human inhabitancy there for all those years, since the English literally drove the Scots out of the highlands and into cities like Glasgow and Edinburgh, the sense of barrenness and desolation still hangs over the land. It is almost palpable as you walk around and say, what a price Great Britain has paid down through the centuries for the fact that people were driven out of this area.

Now, we are never going to be quite that dramatic if rural America sees people leave, but nonetheless, there is a lesson there that I think we can pay attention to.

Thank you for participating with me in this dialogue as I try to get my arms around what it is we are doing here and what it is you are doing. Now a few very parochial questions about some of the budget issues that you raised which is basically what we came to talk about.

PATENTS ON ARS PRODUCTS

Dr. Jen, the Agricultural Research Service obtains patents for products and procedures which result from taxpayer sponsored research. Then the ARS licenses private industry to produce consumer goods that allow the technology and resulting beneficial projects to get in the hands of consumers. We have been talking about that in the distribution thing. I understand now that there are more than 600 new patents. How much money are we talking about? What is the average annual receipt from licensing these patents, and are those funds just deposited into the Treasury or does ARS get to keep the money, or do you have a pizza party at the USDA? What do you do with the money that comes from the licensing?

Dr. JEN. I think——

Senator BENNETT. I am sorry. I should not be that light-hearted. Obviously, nobody has a pizza party on that.

Dr. JEN. No. Actually, sometimes those patents do produce unexpected results. One of the patents that ARS had was to develop a pear bar from pears, and it is very healthy, almost like a candy or granola bar, but it is a very, very small kind of commodity. It was actually picked up by a rural community in Oregon, a town that was going out of existence. ARS licensed them to put up a little processing plant to produce it. It is now available in the Northwest United States, the plant employs 90 or 100 people, and that little rural town is revived.

Senator BENNETT. But do you get any licensing fees from the pear bar?

Dr. JEN. I believe we do, I think. But I do not know the exact number. I am handed just a list here. I think, for example, in 2002, the total license income is about $2½ million. The total income is about $4 million. We do receive some funding out of licensing.

Senator BENNETT. Does that go into the General Fund or do you get to keep it?

Dr. JEN. I believe this money goes back into the ARS Research Fund. Am I correct? 25 percent goes to the inventor, and 75 percent back to supporting the administrative operation.

Senator BENNETT. Who is the inventor?

Dr. JEN. The scientist who has it.

Senator BENNETT. I am a private scientist and——

Dr. JEN. No, no, no. The ARS scientist who develops it.

Senator BENNETT. So you could have theoretically a scientist who earns more money than the President?

Dr. JEN. That certainly is possible. A lot of the faculty in the universities do that, too.

Senator BENNETT. So does the football coach.

Dr. JEN. But I think the number of patents that have been licensed has not been very, very overwhelming.

Senator BENNETT. Thank you very much.

LAMB MEAT ADJUSTMENT ASSISTANCE PROGRAM

Dr. Penn, last week 22 Senators sent Secretary Veneman a letter requesting that USDA continue for one additional year the Lamb Meat Adjustment Assistance Program, and in my State of Utah the lamb is very important, and this has benefited my producers. As you noted, all of you, that Utah is in the 5th year of a severe drought, and I understand you have stated that funding is not available to continue this program.

I have come down from the lofty area of talking about the overall economic circumstance to taking care of my own constituents. So you will understand where I am on this. As of May 6th there was $298 million of uncommitted funds in Section 32, a sum that in all likelihood will not be fully expended in the remaining 4½ months of fiscal year 2003, and you can see where this is going. I would very much appreciate it if you would sit down with Secretary Veneman and consider all of the issues confronting the lamb industry and see if there might be some reprogramming requests or other activity with some of this money to help us out.

Dr. PENN. Mr. Chairman, I am aware of the program, and I am aware of the letter, and I am also very pleased to tell you that the responsibility for that program falls Under Secretary Bill Hawks' mission area, and you are going to be seeing Mr. Hawks next week, so I would hope that you would bring up that issue with him. I will make him aware——

Senator BENNETT. Approximately handed off, duly noted.

Dr. PENN. I will make him aware of your concern, so he will be prepared with a good answer for you.

FOOD SUPPLIES IN IRAQ

Senator BENNETT. Dr. Penn, just to give you an opportunity to make a statement for the record, because of the various press reports around this issue, let us talk about Iraq for a minute and the current need for food in Iraq, and there are those who say we are in a humanitarian crisis there. There are those who say we are not. There are those who say the Iraqis have more food now than they did before the Americans and the British and the Poles and the Australians went in, and that whatever humanitarian problems there are in Iraq are a holdover from the old regime that we have not caught up to yet, and there are those who say, no, no, no, it is all our fault.

I understand that these statements are against the backdrop of how people felt about the war prior to the war going in, but can we deal with this in a factual way? Can you give us some information with respect to food aid in Iraq? Do you believe that additional food is necessary? Is the distribution system adequate, and so on? Let us comment on this and try to help set the record straight.

Dr. PENN. Well, thank you very much for that opportunity. I have noted the same stories that you have and there is a lot of conflicting information in the public domain now. Let me start by saying before the hostilities, the Iraqi people were about 70 percent dependent upon imported food, and this food was largely paid for through the Oil-for-Food Program, which is a program that was operated jointly by the United Nations and the Iraqi authorities, and various countries contracted with the Oil-for-Food Authority to provide this 70 percent of the food that the Iraqi people needed.

Before the hostilities started we of course were aware that they might begin, and were of course doing contingency planning to make sure that there was not a humanitarian crisis once hostilities began and once they ended. So there was a lot of activity to preposition food in the region, and we had reason to believe that there was a considerable amount of food in the country at the time hostilities started, that individual households would have had at least a month's supply and maybe more of food that was being distributed under the Saddam Hussein regime.

The U.S. Agency for International Development made available $200 million to the World Food Program to preposition food, to get food in the region and have it available so that in that period when hostilities ended and before a new distribution system could be established, we could go in and make sure there was no humanitarian crisis.

In addition to that, the U.S. Government has made available a substantial amount of resources to provide food for Iraq, again, to prevent the very kind of humanitarian crisis that you have talked about. We have drawn upon the Bill Emerson Humanitarian Trust, which is a food reserve once known as the Wheat Reserve. It was some of this surplus production that we have been talking about this morning that was put in a special reserve for emergency situations like this. So we have made available wheat and wheat flour, and rice for the Iraqi people and have begun shipments of that. It is my understanding now, from all of the information that I see in my position, that there is more than ample foodstuffs available in Iraq. This is especially true for wheat, for rice and for sugar. I am talking about the foreseeable future, and the foreseeable future being until the end of summer, let us say.

There is a need for vegetable oil and pulses to round out the ration that the Iraqi families have received, and USAID is now in the process of purchasing pulses and vegetable oil to add to the rations that are being sent.

As far as the information that I have available to me shows, there is no humanitarian crisis. I do think some of these stories about major problems there, about famine in the offing, are somewhat self-serving. We know about the size of the Iraqi wheat crop. We know that crop is being harvested now. Provision has been made for funds to be available to purchase that crop from Iraqi farmers. We think it is important to do that because as we have talked here this morning, the Iraqi farmers need incentives to go plan the wheat crop for next year and to begin to plot the irrigated rice crop and other things.

So at the same time that we are trying to meet the immediate needs of the Iraqi people in terms of diet, we are also looking ahead to try to get as much production reinvigorated in the country as we possibly can.

The last part of this is that the Oil-for-Food Program, which uses Iraqi petroleum money to purchase imported food, is slated to expire on June 3rd, and it is uncertain whether that program will be extended or whether that program will be terminated and the purchasing authority shifted back to Iraq. We just simply do not know at this point. That is being discussed. But the Iraqi people do have resources. They have petroleum resources, and so they do have money to buy food. It is not like Afghanistan or a lot of other developing countries' situations.

Senator BENNETT. Thank you. I appreciate your sharing that with us, and that will go a long way with meeting with some of the rumors, and as you say, self-serving statements as people try to rewrite history in order to validate their own prejudices with respect to the American initiative in Iraq.

CONSERVATION PROGRAM TECHNICAL ASSISTANCE

Let us go back to the farm bill for just a minute, and there has been controversy over the funding for technical assistance for the mandatory conservation programs authorized in the 2002 farm bill, and in the fiscal year Omnibus Bill, the supplemental, we provided direction to USDA with respect to technical assistance funding, and I believe that there has been a partial fix at least as a result of the 2003 Omnibus Bill.

Now, Mr. Rey and Dr. Penn, do you support the idea that funding of technical assistance for CRP and the Wetlands Reserve Program should be borne by the individual programs, and if so, do either of you have suggestions as to how we could do that better?

Mr. REY. Our suggestion is embodied in our 2004 budget proposal for the creation of a Farm Bill Technical Assistance account, and I think if the Congress were to adopt that proposal, what you would see is a more equitable distribution of the technical assistance burden across all the programs.

Senator BENNETT. Do you have any——

Dr. PENN. I agree.

RURAL DEVELOPMENT FIELD OFFICE CONSISTENCY REVIEW

Senator BENNETT. Mr. Dorr, Rural Development has embarked on a consistency review of all of its field offices. Could you share with us why you chose to initiate this review and what the field structure will look like when it is over, or what you hope it will look like, if you indeed have a predisposition as to where you hope this will come out? And give us the time frame in which the review would be completed.

Mr. DORR. The consistency review that you are referring to was actually initiated by my predecessor back in 2001, which was as a result of the reorganization that had taken place at USDA in the mid 1990s. It was determined at that point by both my predecessor and his staff, as well as a large number of our appointed State Directors and their program directors, that there was a difference of job descriptions and structures that made a high level of inconsistency in administering our programs across the country. A team of 10 State directors were appointed and they reviewed the situation.

They concluded that there were two basic structures that could be implemented. One they called a two-tier structure and one a three-tier structure. After considerable evaluation their recommendations were accepted. The two-tier structure allows for a

State staff with regional locations to deliver programs. A three-tier structure allows for a State office and some regional locations, as well as some local locations. The purpose for the two structures is to allow the State Directors and their program folks, who understand best how to implement those programs at the State level, to do so in a way that effects a consistent and a efficient delivery of our programs across the States.

State plans were to be into our office by the end of April. They are undergoing review, and they will be evaluated in the context of the Secretary's overarching efforts, as well as in the context of appropriate civil rights, and national, State, and county organization review processes.

WATER AND WASTEWATER PROGRAMS

Senator BENNETT. Thank you. I have another question for you, Mr. Dorr, but first let me make a general observation about the State of Utah. Sixty-four percent of the State is managed by the Federal Government, and your colleague, Mr. Rey, oversees 13 percent of Utah's land through the Forest Service, and then over in the Department of Interior with the BLM, they have the bulk of the rest of it, but the Department of Defense owns a fairly large chunk of Utah land on which they drop bombs with a great regularity. In 18 of our 29 counties the Federal Government owns more than 50 percent of our land. There are some counties where the Federal Government or the State Government combined is up to something in excess of 90 percent of the land. So there is a constant day-in and day-out sense of the overwhelming presence of the Federal Government when you get out into rural Utah.

It may not be coincidental that in these counties where the Federal Government manages more than 70 percent, that is 13 of the 18 to which I referred, these are the counties with the highest percentage of people living below the poverty line, and they probably would not be impressed with my esoteric discussion of economics here this morning, as I switch hats and stop being fairly academic about it, and now get real with real people living in real situations. So I am leading to a discussion of the grant programs for water and wastewater in these communities. This is not a case of people being involved in an uneconomic situation where they ought to change. It is a case where the county does not get the property taxes, even though we have built funds, payment in lieu of taxes funds, they are inadequate in really many instances to meet the challenges of these counties, and your budget proposes to reduce the Water and Waste Disposal Grant program by approximately $245 million.

That leads to the obvious question, if your mission is to support the infrastructure of rural America, but being very parochial right now, the infrastructure of rural Utah, how can we make sure that the counties in this kind of a situation will be able to maintain safe drinking water and sewer infrastructure when the Federal Government, which occupies so much of their county, is in a position where they are cutting back dramatically on it?

Mr. DORR. That is a very appropriate question. Congress, in the last farm bill added about three-quarters of a billion dollars of additional funds to increase these water and wastewater programs, which our group at the Rural Utilities Service was able to get implemented and distributed to many of these communities by last August. We got the full sum out after we had utilized our 2002 appropriation.

Quite frankly, we had an opportunity, as a result of Congress's largesse on that particular issue to address a lot of the backlog that we were facing.

LOAN TO GRANT RATIO

Historically the loan and grant ratios of those programs, up until about the mid 1980s, had been in the 65 percent loan to 35 percent grant rate, perhaps 30/70. Over the last number of years they had migrated to a 60/40 loan to grant ratio. With the lowering of interest rates, the need to be careful with how the administration allocated resources, the decision was made in light of addressing the backlog of water projects last summer, that we would try to go with the 75/25 split on the loan to grant program, which does in fact maintain a total program approaching what we have this year of about $1.6 billion.

Senator BENNETT. Thank you. I am just reminded that in Utah we get more grants than loans, so if the grants are cut off, we have a real problem, and I would appreciate it if you would pay a little attention to the problem.

Mr. DORR. We will look at it closely.

RESEARCH, PLANNING AND MANAGEMENT

Senator BENNETT. Get back to me on that. Thank you.

In that same vein, Dr. Jen, the 2004 budget requests $67½ million for new ARS projects, emerging diseases, sequencing, bioinformatics, biosecurity and so on. On the one hand funding for waste management research in Mississippi is proposed for elimination, while on the other hand funding for managing wastes to enhance air and water quality is requested. Is there any coincidence or coordination between the fact that Chairman of this subcommittee is no longer from Mississippi? Is this sending a message that projects initiated by members of Congress is a direct result of the regional issues, like the one I have just raised with Mr. Dorr, is there the message that member projects are considered less important and that you say, well, it is nice that the member put that in, but we are going to do what we want? I am now asking a Senator Byrd type question.

Dr. JEN. Absolutely not, Mr. Chairman. I do not know the specifics that you are talking about. We could get an answer for you from the staff. But research projects do come and go. Once a project is finished, it should be removed from the books and new research started. Constant reprogramming is going on all the time in the ARS, so from year to year there will be changes. I doubt very much, that it was not coincidental, sir.

Senator BENNETT. You think it is coincidental; it is not causal?

Dr. JEN. That is right. No, it is not causal.

Senator BENNETT. In your 2004 budget request for ARS you assume the elimination of $132.7 million worth or research projects around the country, projects, livestock, rangeland studies, biotechnology research, grain disease research, things of that kind, and you get my attention when we are talking about bee research in my own State. We are "The Beehive State." It is in the State seal. Now, all of these research projects were designed to address real problems facing farmers and ranchers, and the research is not yet complete. I can understand if we are cutting funds for areas where the research is done and saying we cannot afford to initiate any new research. But it seems to me penny wise and pound foolish if we say, okay, we are halfway there and now we are going to cut the funding. Does that not mean that the money that has already gone in has been wasted if the research is not completed, and that it is a better use of taxpayer dollars to finish what you have done, and then, as I say, if resources are considered scarce, say, all right, we cannot afford to launch these new projects, but we have to get the dollars' worth for the money we have already spent to finish up these old projects? Could you comment on that?

Dr. JEN. In general I could say if we are trying to cut certain programs it does not necessarily mean that research may not be continuing. It may have been moved to another location to continue. Particularly I think in the beehive program there are five places in the United States that are doing that research. Given the multidisciplined nature, oftentimes consolidating those research projects into just one or two places will give better efficiency of the research dollar than doing it in five different places. So part of these adjustments are on that basis. It does not mean that the research is cut.

And also I do not think research programs are normally terminated before they are completed. However, as research managers you do sometimes have to call the shots because if it is up to the researchers, generally, they find one result and create three more problems, so the researcher would continue on forever and expand for every single one of them. I think that is a general answer.

Senator BENNETT. That point is very well taken. I remember one university president said to me, about another project, he said: This is the perfect research project. The issue is too important and the solution can never be found.

COUNTRY OF ORIGIN LABELING

Finally, one of the most contentious issues that I have discovered since I assumed this position is country of origin labeling. I did not really know anything about that until I got this assignment, and now I am hearing all kinds of things about that from a wide variety of directions.

Dr. Jen, you oversee the Economic Research Service, and I think it would be very helpful for us to have some research on country of origin labeling, some research on the financial impact of it, some research on how customers will react.

I will burden you with an experience in another field that may or may not have relevance here. Some years ago in the automotive field there was an initiative that was successful, to put domestic content labeling on automobiles, and it was initiated primarily by United Auto Workers, who felt that American purchasers would buy more American cars or would buy more products on which the UAW worked if they knew what percentage of the content in that car came from America and what percentage came from other countries. And great, great debate, and tremendous difficulty in the

Congress getting domestic content legislation passed. I was familiar with that and all of the arguments about country of origin labeling come up. We had a discussion about that with Secretary Veneman.

Domestic content legislation did pass and pretty soon they were putting on the label on the cars what percentage of the car was produced in the United States, and which percentage came elsewhere. And then someone did some research and they asked customers if they paid any attention to the domestic content label, and if they did, if it made any difference in their purchases. The answer came back the majority of automobile purchasers did not pay any attention whatsoever to the label, and those that did were looking for German or Japanese content which made them more likely to buy the car.

Having gone through that experience and now being thrown into this country of origin labeling, if we can do it without a lot of money, I would like somebody to do some objective research to find out how customers will really react in the supermarket if they have country of origin labeling, and whether or not the reaction will be perverse to those who are pushing or the provision because the bureaucratic burden of country of origin labeling is turning out to be very substantial, and we had some of that discussion with Secretary Veneman in her testimony last week, and I think it is not going to go away as an issue. As I try to deal with the issue, I would be very grateful if I had some additional information that would come on the financial implications and the market implications of what this is going to do once it shows up on the supermarket shelf and is it all worth it.

Dr. JEN. I think I will take your suggestion. We will ask ERS and see if, within the funding we have, that study can be done. I do know that ERS has been doing quite a bit of research related to what they call traceability, tracing the product from its origin which would be needed for the country of origin type of label. They recently had a presentation within the Department showing that economically it makes absolutely no sense for doing that.

But what you are asking is if the consumer cares about the country of origin label, and I do not believe we have done that, but I could be wrong.

Keith, do you know if we have done that?

Dr. COLLINS. Mr. Chairman, yes, we have done some work on consumer valuation of label information like country of origin. Not only has USDA done some, but the university community has done a lot as well. I am not sure what you are going to see from that survey will satisfy you completely because economists take lots of different approaches and not surprisingly, they find lots of different answers.

For country of origin labeling, one approach that has been taken is the so-called contingent valuation, where you ask a consumer, through a series of questions, how much they would be willing to pay for such label information. Not surprisingly, they are willing to pay a fair amount. When you add that up across 280 million people, it turns out to be a very large number.

On the other hand, there are other studies that actually look at what consumers do pay when they have to pay for information like that, and not surprisingly, it turns out they will pay a lot less than they say they are willing to pay.

So you get a range of benefit estimates. ERS has in fact done some work on a mandatory study we had to do a couple of years ago, that the Food Safety and Inspection Service did for the Congress on this issue, and they continue to work on this issue. I might say that the country of origin labeling proposed rule, being an economically significant rule, will have to have a very detailed cost benefit analysis in it. That is one that I will have to sign off on, so I would anticipate that that analysis will in fact be a state-of-the-art assessment of the benefits of country of origin labeling, as well as the costs that would be imposed on all of the different regulated commodities and entities that country of origin labeling would affect. Now, that may not come soon enough to satisfy your quest for the information, and I think if Dr. Jen is willing to ask ERS to help in that area, that would be very useful, I think.

Senator BENNETT. Thank you. In talking to meat packers, they say the cow does not care where it is born, that is, there is no DNA difference in the beef from a cow that is born on one side of an arbitrary geographic line than a cow that is born on the other side. If they come from exactly the same stock herd or stock background, and in most cases they do, that genetically there is absolutely no difference in the hamburger. You say the ground beef in this hamburger came *x* percent from Canada and *x* percent from the United States, this becomes maybe statistically true, but in terms of what the customer eats, there is absolutely no difference whatsoever.

Dr. COLLINS. I think this debate will play out on a number of fronts. It will be not only whether consumers value this information in making more informed choices. It will be debated over whether it is a food safety issue. There are a lot of aspects to this.

But as you say, we do have some experience with other industries. You mentioned automobiles. Another apparent one would be the Textile Labeling Act, which every time you look at the label on your shirt you know what countries your textiles and your clothes come from, and that has certainly not dissuaded people from now buying most of their apparel from overseas sources.

The question is, is it going to be different for food. And I think I would, rather than try and opine on that here today, I would wait to see what we develop over the next year as we develop that rule, but surely the example you gave of German and Japanese cars, we have seen some of that in food as well. Like your, earlier mention of the lamb improvement program, there are a lot of people that prefer New Zealand in the United States, and will look for New Zealand lamb. So even in food we have seen some of the examples that you gave.

SUBCOMMITTEE RECESS

Senator BENNETT. None of them live in Utah.

Thank you all. We appreciate this. I am particularly grateful to you for your willingness to participate in a dialogue aimed at trying to educate a new subcommittee chairman.

The hearing is recessed.

[Whereupon, at 11:31 a.m., Friday, May 16, the subcommittee was recessed, to reconvene subject to the call of the Chair.]